

NEW ZEALAND'S  
NATIONAL WEEKLY OF  
BUSINESS, POLITICS  
AND ECONOMICS

# NATIONAL BUSINESS REVIEW

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## Building Society law leads to spate of merger moves

by Rae Mazengarb

AMENDMENT of the Building Societies Act 1965 — passed at the end of the last Parliamentary session — has already led to moves by several societies to merge their organisations.

One industry executive bluntly noted last week that this is "the end" of terminating building societies as they have traditionally operated. Survival would depend on the adoption of permanent-type approach.

Thus for smaller terminating societies — which must now compete against the permanents as well as against other terminating societies — must merge to remain in business.

By the end of this year, according to some building society executives, there may be only 20 societies. Fifty-three were registered at March 31 1980.

Rationalisation is being led by the Northern Terminating Building Society.

Industry sources predict that by March 31 only five major terminating societies will remain compared with 12 earlier last year.

The legislation gives societies flexibility to modify their products. And it allows ter-

minating societies and their ancillary permanent organisations to merge their operations, rather than continue present artificial distinctions.

In practice, linked operations previously have been run by the same management structure under the same roof.

Merger moves already under way include:

- The General Co-operative Terminating Building Society's recommendation to shareholders to transfer the society's assets to Northern;

- Eastern Terminating Building Society shareholders have resolved unanimously to join with Northern;

- It is understood the New Zealand Co-operative Terminating Building Society is one of two societies negotiating similar moves with Northern;

- The Central Building Society has announced its transfer to the Auckland Co-operative Terminating Building Society;

- The large Canterbury Terminating Building Society — which, like half a dozen other terminating societies, has a linked permanent society of the same name — is looking to merge its activities with other terminating societies.

Tonight, the Bay Co-operative Terminating and Bay Permanent Building Societies will hold a special meeting of shareholders to vote on a merger with the Canterbury operations. That will bring the total asset base of the four to around \$105 million.

Northern — without the proposed mergers — has a total asset base of more than \$250 million.

Northern managing-director C J Tipples confirmed the proposed mergers were "a consequence of the (new) legislation".

Canterbury's deputy managing director Colin Jenkins said they were "the result of" the new law.

The registrar of Building Societies, Kelvin Prisk, said the legislation was aimed at eliminating the distinction between permanent and terminating building societies and the "them" and "us" attitude that had prevailed over the years.

Terminating societies in practice would be winding down their businesses and introducing the new products provided for under the new legislation, Prisk said.

Most sources agree there had long been a need to rationalise the building society industry.

The legislation is expected to provide a foundation for strengthening the movement and in the long run eliminate some of the practices which had become "inappropriate" in today's financial climate.

One authority said the terminating societies, by creating an image that was "not the most desirable", had curbed the growth of the building society movement in this country compared with overseas.

Terminating societies are illegal in most other countries.

They were outlawed in South Australia in 1975 and in Queensland a year later.

The Government here has been known to oppose the societies for some time and in

recent years there has been a steady fall-off in both the number of terminating building societies and their membership.

The permanent societies, in contrast, have experienced strong growth over the same period.

Most criticism of the terminating societies stemmed from the nature of the contract between the societies and their members and the high forfeiture rate.

It had been claimed that contracts were so worded that it was difficult to visualise circumstances where a member could take legal action against a society.

Generally, industry executives say they are happy with the changes resulting from the new law.

Jenkins said: "The effect as far as I am concerned will be to make it possible to readily tune our product to today's market

Continued on Page 15.

## Upsurge in exploration

by Rae Mazengarb

ENERGY Ministry officials expect a record level of oil-exploration activity this year.

Overseas companies — influenced by the world oil situation, by the Government's new fixed exploration policy and by the worldwide advertising of our offshore licence blocks — have shown an upsurge of interest in the last few months.

Offshore licences have been granted to:

- The Shell-BP-Todd consortium which, in association with Petrocorp, has a three-well programme off Taranaki.

- An American group which includes New Zealand Petroleum, Triton Oil and Gas Corp for an area off the West Coast of the South Island.

- The Shell-BP-Todd consortium spudded in to the first drilling target using the drilling rig Sedco 445 around Christmas.

It is understood negotiations are under way concerning New Zealand Petroleum's use of the same drilling rig for its programme, scheduled to begin later in the year.

Some 30 off-shore blocks in the Taranaki area were advertised world-wide last October last year. The closing date for licence applications is February 15.

An Energy Ministry official

said last week that more than 70 overseas companies had sent representatives to look at data on those licence areas.

Some companies had sent out geologists for up to two weeks at a time.

A deluge of licence applications is not expected in the next few weeks, but the response by mid-February will be the test of the new exploration legislation.

If half the blocks in the area were taken up under licence, the ministry would be more than happy, the official suggested.

Companies would not be required to drill within a certain time of taking the licence, he said. Only the size and position of the areas had been fixed.

The licence term of each licence would depend on the work proposed by licence-holders. They would be evaluated on their work programmes.

Licences issued so far suggest a spending by private sector and Government interests in the search for oil of more than \$70 million.

If moves to push the exploration programme are successful, that investment will be much higher.

Energy officials say they intend to "keep the ball rolling" and will push to accelerate interest with further advertising later in the year.

John Bligh

North based Delta Plastics as unfair subsidies worth 1.18 per cent and...

AN American official indicated that Ronald Reagan's defence of New Zealand's economic policy...

WELLINGTON based Link Consultants will review mining legislation in light of the protests by Waihi residents in prospecting and eventual mining in Coramandel.

WAIHEKE County Council lost its chairman Ronald Lewis Gay after he was convicted on firearms charges following a customs raid on his home.

### The business week

Amat Ltd: unaudited profit for the year ended October 31 was \$28,880,000 (last year \$35,696). Directors recommended a one for five bonus issue to ordinary and B shareholders. A dividend of 10 cents will be paid February 18.

Brambles Industries Ltd are forming a joint venture with Guest Keen and Nettlefolds Ltd to acquire British waste disposal operator, Redland Pulp Ltd from Redland Ltd for \$440 million.

Colyer Watson Holdings Ltd: Net loss for the year ended October 1 was \$343,000 (last year \$845,000 profit). No dividend will be paid.

Fletcher Holdings, Challenge Corporation and Tasman Pulp and Paper disappeared from the stock exchange listings, replaced by Fletcher Tasman Ltd.

Independent Newspapers Ltd took its stake in Autocrat Sanyo Holdings (NZ) Ltd to 20 per cent, buying 372,480 shares at \$1.75.

L & M OIL NZ Ltd: have joined with Ryan Mining Ltd in searching for gold on the Shallow River near Queenstown.

Marac Holdings Ltd will make a three for ten cash issue at a premium of \$1.

Pavroc Holdings Ltd directors recommend the immediate rejection of Fulton Hogan Holdings Ltd's takeover bid.

Walker & Hall Ltd: unaudited profit for the six months ended October 31 was \$103,914 (last year \$55,000). The latest figures include the subsidiary, Silver Associates Ltd. An interim dividend of 10 cents is payable on January 21. Shares in Auckland Electrolighting Co Ltd have been sold.

Westbridge Holdings Ltd: unaudited net profit for six months to September 30 \$29,100 (last year \$23,300).

### Economic indicators

WEEKLY wage rates rose 21 per cent in the year to September 30 (11.1 per cent in 1979).

EXPORTS climbed in November and imports

dropped, more than doubling the previous year's trade surplus for the month. Exports at \$494 million (\$439.1 million) exceeded imports \$469.7 million (\$429.2 million) by \$24.4 million (\$10 million).

WHOLESALE trade increased 13.9 per cent in the year to September 30. Automotive sector showed the largest increase 37.7 per cent, food and drink 17.6 per cent and hardware 14.4 per cent. Chemicals slumped minus 3.3 per cent while furniture only increased 3.8 per cent and apparel 5.7 per cent. Stock increased 16.3 per cent overall, furniture 29.4 per cent, chemicals 28.2 and machinery 22 per cent.

NEW mortgage registration totalled \$245 million in September (August \$222.2 million) at an average rate, excluding Government mortgages of 14.32 per cent (14.05 per cent).

THE consumer price index showed its lowest rise since beginning of 1979, going up 3.6 per cent in the last quarter of 1980, bringing inflation for the year to 16.1 per cent, 0.2 per cent down on 1979. Food contributed one per cent of the rise in the latest figures, rising 2.9 per cent.

### Taxing profits

In Business Week a December 8 Ballins Industries Ltd's unaudited profit for the six months ended September 30 was mistaken confused with the tax provision. The net profit for the period was \$782,000 and 32 cents interim dividend was paid on January 9.

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## Do-it-yourself election campaign by Labour

by Warren Berryman  
THE Labour Party is moving to set up its own advertising agency to handle political advertising for the 1981 election campaign.

The concept will be considered by Labour's publicity committee this week. Party insiders expect approval to be given.

Labour's new ad team will be directed by economist and former TV journalist Simon Walker, who returned from the United States late last year to take up the job of Labour Party director of publicity.

Walker will employ freelance advertising people to create the campaign. His right-hand man is likely to be Geoff Kirkham, of Campaign Advertising.

Labour's move will save the party the 20 per cent commission paid to advertising agencies. But the party may still have to place its advertising through an accredited agency.

Accredited agencies usually charge non-accredited agencies a 5 per cent fee for ad placement unless a more friendly arrangement can be achieved.

This development marks the fourth change in Labour ad agencies in less than a year.

Wood and Mitchell Advertising Ltd bowed out after handling the 1978 Labour election campaign.

Last April, with the Labour Party conference looming, party president Jim Anderton contracted with Monahan Daymon Adams and Partners to handle

the organisation and advertising. This agency dropped the party before starting work because of political pressure from other clients.

Anderton then went to Squires Advertising. Rod Squires handled the conference and the Onchunga and Northern Maori by-elections on the understanding that if he did a good job he would handle the 1981 election campaign.

Last October, Squires dropped the Labour account. He said the party was too slow to pay its debts and he could not afford to be its banker.

Anderton denies slow payments. But it appears that the bulk of the \$30,000 owed Squires had to be paid with a cheque drawn on Anderton's own company, Anderton Holdings Ltd, not on a Labour Party cheque.

Anderton said he was reimbursed by the party next day.

Labour then went to Albatross Advertising, a new agency on the Auckland scene started by three former Radio Hauraki men.

Albatross was given the job of making a film for the campaign and the idea that if they did a good job they might land the 1981 political campaign advertising job.

Albatross had its radio accreditation suspended last month after receiving writs for non-payment of debts from Radio New Zealand and Radio

Hauraki and a threatened writ from Radio Windy.

Albatross managing director Pat Ferrall said his company owed about \$20,000, but was owed more than that sum.

Labour Party general secretary John Wybrow said that, despite rumours to the contrary, the party owed Albatross nothing.

Anderton said Labour owed Albatross some money for work done in December, but it was

Ferrall said Albatross have been paid most of the \$30,000 or so for the film, but about \$10,000 still owing was disputed by the party.

Anderton was to meet with Ferrall last Thursday as NBR went to press.

Anderton and Walker saw Albatross and apparently terminated the party's relationship with the agency on December 27.

Albatross disagreed with the party over matters of payment. Fearing a repetition of the Squires Advertising experience, Albatross asked Labour for prepayments of \$40,000 a month for the 10 months leading up to the election plus payments for extras over and above this amount to be paid within seven days of invoice. Total ad expenditure for the campaign was expected to come to more than \$0.5 million.

Because the party planned to spend about \$100,000 in the months of June and July, Ferrall said he felt his agency



Jim Anderton... denies slow payments.



John Wybrow... campaign eliminates from party.

the finances were handled by Albatross. He said he had been paid with a "rubber cheque" before Christmas but that Anderton had seen him right out of his own pocket.

He said he was still owed money, but he did not blame the Labour Party which, to his knowledge, paid its bills on time.

"The Labour Party is suffering an indignity and injustice they don't deserve," he said.

Labour's ad team will be up against National's Dobbs Wiggins McCann Erickson (1980 billings \$10 million). Dobbs Wiggins is part of the huge Interpublic group (total 1979 billings \$2.9 billion).

But Wybrow insists: "A political campaign emanates from the party. If we don't give an agency ideas, it can't develop them."

Some admen feel the client should give them the job and then stand back and let the professionals get on with it. Wybrow doesn't appear to be of that school of thought.

The political party running its own ad campaign with hired experts has worked in Britain - why not here? he asks.

As to the costs and benefits of using a big agency, like Dobbs Wiggins, which can tap into creative resources worldwide, Wybrow pointed out that size meant more people were involved in strategy secrets. "And ad agencies leak like sieves," he said.

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### Rob says "no" to NBR offer

PRIME Minister Robert Muldoon still will not talk to the *National Business Review*. Shortly before Christmas he declined an offer of space to amplify his longer-term strategy and the guiding principles of the strategy in this week's NBR.

A letter from Colin James on behalf of editor Bob Edlin on December 10 invited him to contribute an unedited article of 2000 words (which we would publish without editing) or alternatively to grant an interview to be run, edited as little as possible, at the same length.

Muldoon's reply was brief: "No," he wrote. "I prefer your paper's unabashed editorial opposition and bias."

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# "Five new staff members? I couldn't have done it without the Department of Labour's Additional Jobs Programme."



H. A. Macalister

"The high cost of recruiting and training new staff is one major financial deterrent for any smaller business wishing to expand. But with the Additional Jobs Programme I was able to overcome this problem. In fact I took on five new trainee machinists over a six-month period, three of whom are still working for me. And I was able to do it because of the Additional Jobs Programme weekly wage subsidy. The

subsidy allowed me to take on new recruits and give them a chance to show me their skills. I was able to give them thorough on-the-job training and those who have stayed on have now become very valuable members of our staff."

H. A. Macalister, Manager  
J. McGrath & Co Ltd,  
Clothing Manufacturers, Dunedin.

The Department of Labour's Additional Jobs Programme is designed to help both big and small firms wishing to expand their business operations, by recruiting and training new staff. It offers all private sector non-farm employers a wage subsidy of \$50 per week for every additional staff member taken on, paid throughout the first six months of employment, and so reduces the cost of staff expansion during the period of initial on-the-job training. If you are planning to expand your business in this way, check out the Department of Labour's Additional Jobs Programme first. Send for full details now by filling in the coupon below or contact your local Department of Labour office.

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DEPARTMENT OF LABOUR

*The week*

## Aluminium car parts stalled by Aust attitude

by Allan Parker

AUSTRALIAN representatives of aluminium producers Comalco Ltd are due in Wellington in the next few weeks to tie up the deal for a third smelting potline at Tiwai Point.

A heads of agreement paper was signed with the Government last October. Negotiations since then have centred on fine-print detail about power pricing, construction timetables and Government-provided transmission lines for the planned 75,000 tonne facility.

The bulk of the 50-page document relates to the sensitive power pricing for the energy-hungry smelting potline.

Included in the final agreement is a commitment by Comalco to seek downstream processing opportunities. But, like the Aramoana proposal from Fletcher Challenge, no such downstream prospects have yet been identified.

Great political hopes have rested on a suggested aluminium-based automotive components industry for, in particular, the second smelter.

Government has hoped to persuade the major car assembly manufacturers - Ford and General Motors - to establish an aluminium-based componentry industry using the product of the smelters as part of the "World Car" concept.

But studies into the suggestion have been delayed by uncertainty over Australian Government intentions in that area.

In an obvious move to protect its own aluminium producing industry (five new smelters are planned), the Australian Government has announced that aluminium car components from New Zealand will not fall within the Nafta 3:7 arrangement which regards New Zealand-made components as Australian local content and gives duty-free access to that market.

One car industry source describes the Australian attitude as "intransigent" and "bloody-minded".

Hopes for a reversal of this decision rest on the replacement of Nafta by the proposed Closer Economic Relationship (CER) between the two countries.

The key ministerial talks on CER are scheduled for March. Until then, study into a componentry plant using smelter product will remain stalled.

The New Zealand Government, according to our highly-placed car industry source, has been "very sympathetic" to gripes about the official Australian attitude. Such sympathy is not remarkable considering the Government's assurances that downstream processing industries will spring up in the

wake of the additional smelting capacity provided by both Tiwai Point and Aramoana. So pressure will be on New

Zealand to persuade Australia that aluminium-based car components must receive the same access treatment as other

vehicle components. But assembly industries on both sides of the Tasman are facing severe problems and

uncertainty surrounds the extent to which either government is prepared to remove protection.

## Wheeling and dealing into American market

by Lindsay Dawson

CHEVIOT Industries (NZ) Ltd, of Onchunga has won an initial export order worth \$300,000 for aluminium car wheels. They have been ordered by a chain of tyre distributors with 14 outlets in Hawaii and California.

Managing director Bob McMillan said the company was pleased to have made the sale in a country which is a world leader in auto components.

"Our product is dearer than

American wheels," he said. "Some dealers over there are offering up to nine months deferred payment so that they can move their product. We've been able to do it simply on quality."

Buyers were particularly concerned about how well the wheels would balance because they had problems with 95 per cent of American products, said McMillan.

"They've been impressed that ours have balanced to within one hundredth of an ounce."

Cheviot's wheels have also won out because they are guaranteed free of air leaks. McMillan puts this down to the quality of aluminium this company receives from Comalco.

The American recession has helped Cheviot to achieve its success.

Americans are not changing their cars every year as they used to. They are now keeping them longer and maintaining them better, and the wheels, mostly in 14 and 15 inch sizes,

are going on to cars that are two or three years old.

Cheviot is the largest of this country's four aluminium wheel manufacturers, and employs 45 staff at its factory. It had about 80 per cent of the local "after market" - that is wheels fitted to near-new cars, said McMillan.

An associate company has 64 per cent of the Australian market.

McMillan is aiming to increase sales to North America next year, and says sales to South America are likely.

## UEB battling use of 'Berber' as generic term

by Warren Berryman

UEB Industries carpet division is determined to take on all comers - manufacturing competitors, retailers and the Wool Board - to protect its right to the registered trade mark, "Berber".

UEB registered the Berber trade mark in 1972 and holds the sole right to the name until 1993.

The name applies to a high-quality style of wool carpet made with a finger-thick carpet yarn developed by UEB.

After a \$750,000 promotion campaign by UEB the style received a top billing in the marketplace and other manufacturers brought out similar carpets.

Carpet copying could not be combated. But when the name Berber was banded about in the marketplace as a generic term, and competing carpets were sold as Berber carpets, UEB resolved to fight.

Flooring Distributors Ltd applied to the Commissioner of Trade Marks to have the name Berber struck from the register on the grounds that it should be a generic term for all carpets of that type.

After four years' deliberation, the commissioner turned down the application last year.

UEB served an injunction on Cavalier Carpets for allegedly "passing off" its carpets as Berber products.

Cavalier initiated legal action to have UEB's registered trade mark deregistered on the grounds that Berber was a generic name and should never have been registered as a trade

mark.

Cavalier's action was later joined by the Wool Board. The case has yet to be decided.

UEB is spending heavily on legal fees to defend the name. But carpet retailers still use the name Berber as a generic term - a drawback in advertisements to attract carpet buyers to their showrooms. And UEB is concerned that competing carpets are being passed off to consumers as Berber carpets.

Just before Christmas, UEB served an injunction on Irvine and Stern, one of its largest retail customers, to stop it from using the name indiscriminately. The injunction has since been withdrawn.

But UEB threatens further injunctions against retailers if the practice does not cease.

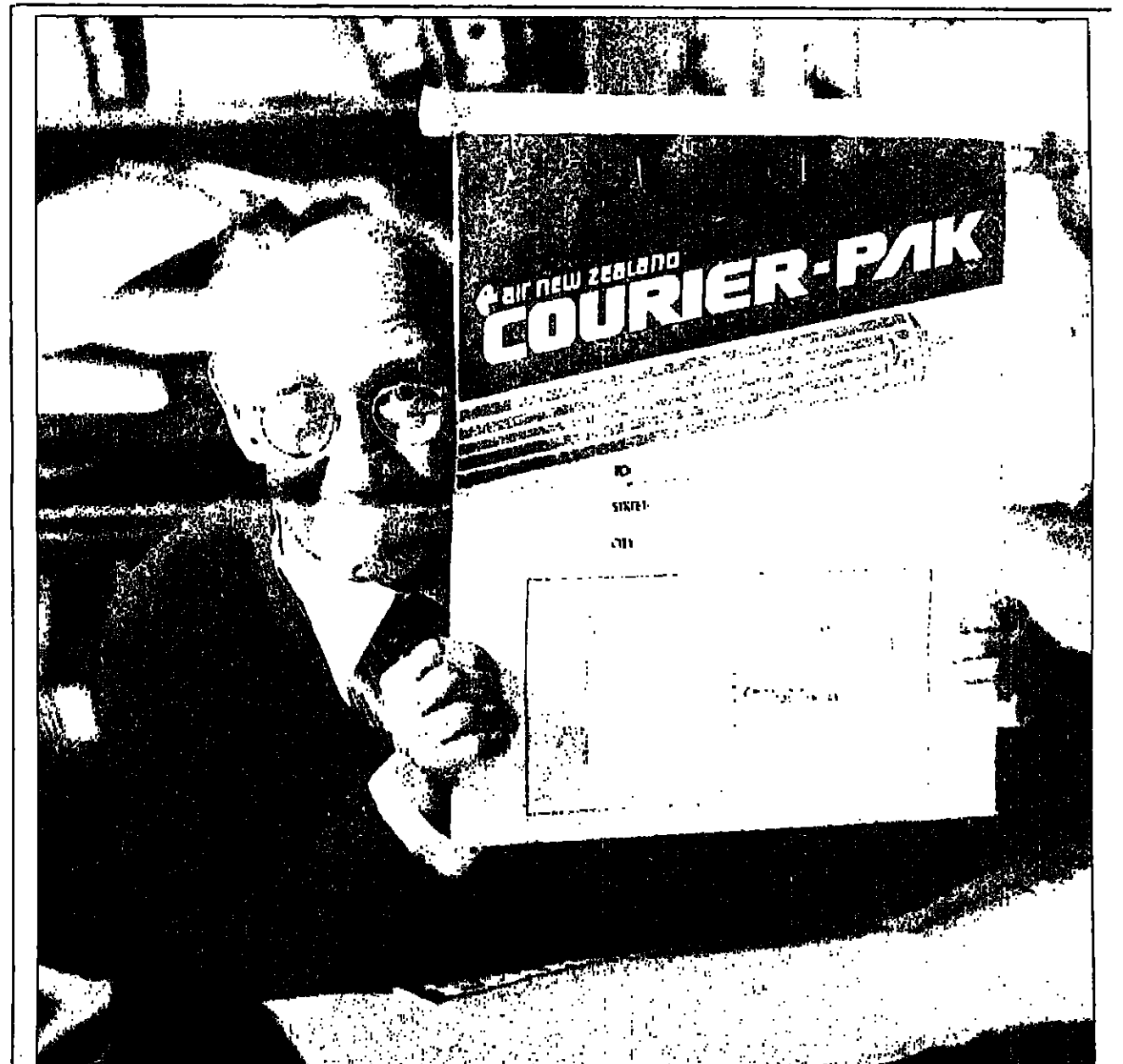
UEB has written to retailers asking them to take note of the company's exclusive rights to the name Berber and to ensure that the trade mark is not used to describe carpet other than Bremworth Berber, because that would lead to an infringement of UEB's registration.

When it comes to policing the sales partner on the showroom floor UEB is likely to have a tough row to hoe.

Successful promotion of a brand name can lead to that name being used as a generic term.

Coke and Xerox have passed from brand names to generic terms in common usage, not legally but as a matter of practice.

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## Comment

## Editorial

THE ANZUS pact, signed by the United States, New Zealand and Australia in 1961, remains the cornerstone of this country's strategic relationships. Simply, it is an insurance policy, calculated to safeguard us against our enemies (variously perceived to have been Japanese, Indonesians, Chinese and Russians in the 30 years since the treaty's signing). It also demonstrates support for and commitment to American ideals and interests and indicates our readiness to become involved in a nuclear war.

The nature and scope of the treaty have changed over the years. We are now prepared to become involved in the Indian Ocean as "resources permit", for example (which in practice amounts to the occasional joint exercise using our Orions), and some thought has been given to extending the treaty to Japan (to create JANZUS). Further changes in the ANZUS relationship are inevitable under the Reagan Administration.

Already the Americans have served notice that we can expect some straight talking about our defence responsibilities under the treaty. According to Ginger Lew, a deputy assistant secretary of state, the Reagan Government will expect us to increase defence spending to make a greater contribution to the pact. She specifically suggested we should reconsider our decision not to buy a new frigate to replace the aging

Otago (so that "if we had to call on New Zealand, for instance, for some presence in the Indian Ocean, we would have something to contribute"). There is no doubt that the Americans consider our military contribution to be paltry, but the hard reality is that our ability to meet our treaty obligations is limited by our capacity to pay for the hardware needed to fight a modern war. Thus Defence Minister David Thompson responded to the Americans by noting that whatever is done to replace the Otago, we must be able to afford it, and the cost of American ships we have looked at has been too high. If the Americans want us to step up our commitment to meet their expectations, they should therefore offer us an attractive discount.

Significantly, Thompson observed that our Ministry of Defence is funded from export earnings — a clear hint that protectionist trade policies which inhibit our export drive are inimical with our efforts to boost defence spending. The Americans prefer to regard defence and economic matters separately; we see them as fundamentally inter-related.

Whatever the financial difficulties of equipping our armed forces, the Muldoon Government remains committed to ANZUS and is prepared to increase defence spending. But visiting Americans have been concerned for some time about what they believe

to be a growing pressure to withdraw this country from ANZUS. And certainly, ANZUS would be severely strained if a Labour Government were elected this year and sought to implement its policy of opposing visits by American nuclear warships while promoting the establishment of a South Pacific nuclear-free zone. One problem: the Pentagon refuses to disclose which naval vessels are carrying nuclear weapons, which would mean that all visits by US vessels may cease. That would negate the alliance's operational effectiveness.

But neither major party advocates the third option, which is to withdraw from ANZUS. It is an option which nevertheless is worthy at least of examination in an era when America's military competence has been brought into question by the Iranian rescue mission, for example, and when its sense of superiority has been seriously undermined by the Soviet invasion of Afghanistan. Her hard-line anti-Communist policies have also spurred the United States into supporting dictatorial regimes which flagrantly violate human rights (and when that involvement extends to military help, we may be obliged to become involved too under ANZUS).

A proper appraisal of ANZUS would consider the degree of commitment by the Americans to "act to meet the common

danger in accordance with its constitutional processes" as required by the pact. Do those words amount to a guarantee that we would be effectively defended, bearing in mind the way in which the fall of the Shah exposed the limitations of American readiness to leap to the aid of an ally? On the other hand, does our participation in ANZUS make us a likely target for Soviet intercontinental ballistic missiles with nuclear warheads, and in what circumstances?

In the wake of Afghanistan, Washington officials have tried to reorientate ANZUS towards the Indian Ocean, which means that treaty involvement could lead us to conflict outside the Pacific. That raises further questions. And we have found in the past that the treaty can be invoked to oblige our participation in a Vietnam war in which we had no moral, economic or defence interests.

Muldoon defines our foreign policy simply and pragmatically as trade. As a trading nation we have close and important contact with countries throughout the world and must be concerned with world problems. We cannot opt out. The ANZUS treaty is generally accepted as appropriate to our best interests. But it should not be accepted blindly as an article of faith. Like all policies, it should be subjected to constant examination and be exposed to healthy debate.

— Bob Edlin

## Without word of a lie

## Testing time

AUSSIE cricket fans might have changed their opinions of us after the one-run defeat of their national team in the one-day thriller at the Sydney Cricket Ground last Tuesday. But until then, as a colleague just returned from Christmas holidays across the Tasman reports, it was imprudent for a Kiwi to proclaim his nationality with any pride in pubs frequented by Ocker sports enthusiasts (although the victory of Ceramco New Zealand in the Sydney-to-Hobart yacht race enabled at least some attempt at a rejoinder when the scuffling became too hard to bear).

The Australian attitude to our cricketing talents perhaps was best summed up on one of the many banners that festooned the Melbourne Cricket Ground during the Third Test: "All we want for Christmas is a five-day test", was its succinct message.

## Fiscal fascination

THE Reserve Bank appears to have given quiet support to the view that Muldoon's budgeting exercises have been designed to have very little economic impact in the 1980-81 year.

Most years, the bank includes a summary of budget policies in its increasingly excellent record of economic events, the *Reserve Bank Monthly Bulletin*. But last year, no such article appeared, although the November bulletin included an article on the principles and practice of fiscal policy, (it was written by the bank's chief economist, Rod Deane).

When the nation's expert monetary economists become fascinated with fiscal policy in a public way, it may be their way of giving the Government a gentle hint that its fiscal policy is not all it could be.

## Great crane robbery

ABOUT three years ago, Civil and Civic Ltd donated a Favotower crane to be used as a tool for training crane operators. The machine was stored in the open at a Ministry of Works and Development plant depot in Auckland while a variety of Government bodies, including the Accident Compensation Commission, the Education Department and the Labour Department discussed, contemplated and finally disposed of several proposals for its use.

In November last year, someone had a bright idea and the Power Crane Association suggested the crane should be refurbished and put on to the

hire market. The income generated — estimated to be several hundred dollars a week — could be used to sponsor training schemes being promoted by the association.

The suggestion was warmly recommended at a meeting of the ACC's building and construction industry advisory committee meeting later in November, when a letter (the tenor of which was that the MWD had had a gust of the crane lying about its yard) was also tabled.

At that stage, in contrast to the dilatory pace of events in recent years, something prompted someone to get off his backside.

The net result of the frenetic activity was that by Christmas the crane was back in Australia. Nobody from the ACC had thought to tell the MWD that some firm and promising proposals for the crane's future were being discussed, and

nobody from anywhere informed Civil and Civic of the proposals.

Apart from the loss of the income that the crane could have produced, New Zealand has lost an asset that in future could have formed an integral part of a proposed construction training college.

## Carpet shrinkage

ONCE there were four major carpet companies with huge overcapacity fighting for survival in a falling domestic market. Times were tough for UEB Industries, Cavalier Carpets, and Feltex.

Cavalier had its heart set on buying the wreckage of ailing Stevens-Bremner. But Feltex picked up Stevens-Bremner when it was down but not out.

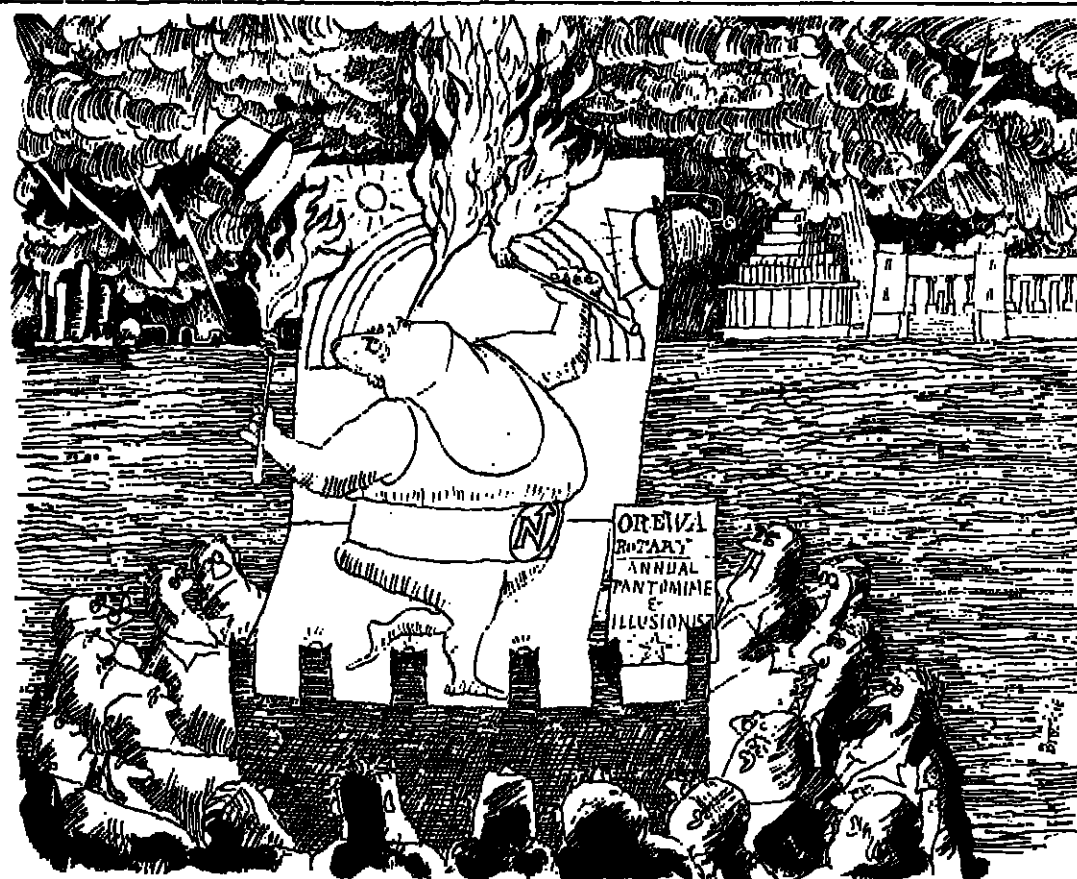
Then there were three major carpet companies. Cavalier apparently feels that this is one carpet company too many. Feltex has the bulk of the market and the Examiner of Commercial Practices is known to frown on monopolies. So UEB and Cavalier are the most likely bedfellows.

But Cavalier was established by three former UEB executives who took their expertise with them to the new company — a factor not likely to endear Cavalier to UEB executives.

Still UEB's financial performance in the carpet division has not been dazzling. And matters of mergers and takeovers are decided by the board of UEB, a company which now includes a 40 per cent holding by NZFP.

All of which might explain recent discussions between UEB directors and Cavalier's money men from R A Jarden and Co.

## Brockie's view



## Comment

## Big rift in Thatcher Government's business alliance

by John Bishop

THE alliance between Britain's business community and the country's pro-business Government has been showing signs of coming apart at the seams.

At issue are the most fundamental issues of economic policy and the role the Government is to play in managing the economy.

A hard-hitting speech by one of Britain's top industrialists late last year rekindled the controversy over Prime Minister Margaret Thatcher's economic policy.

Sir Terence Beckett, former chairman of Ford UK and now director general of the Confederation of British Industry, angered the Government and some of his own members with a call for a "bare knuckles fight" for lower interest and exchange rates and cheaper energy for industry.

The Government responded on November 24 with a package of economic measures, the major sop to disgruntled business interests being a reduction from 16 to 14 per cent in the minimum lending rate. But Thatcher remains adamant that there will be no diversion from the monetarist economic path her government is rigidly taking. That resolve was underlined in the Cabinet shake-up before the year's end.

Before the economic package was announced — and a 2 per cent cut in interest rates is unlikely to appease too many businesspeople — five major companies had resigned from the CBI and a meeting with Thatcher to press industry's demands had been abortive.

The CBI supported the election of the Conservatives, but by the end of 1980 had become concerned that the government was pressing too hard and too fast to achieve its policy goals.

Resolutions supporting a lower pound, lower interest rates, and cheaper energy were all passed with big majorities at the last CBI conference in Brighton.

All ran counter to the Government's policies, at least in the short term. After his meeting with Thatcher, Sir Terence Beckett tried to smooth over the differences saying that there was complete agreement on long-term aims.

"Short term, we have differences of opinions," he said.

The public row within the CBI and between the organisation and the Government went to the heart of the continuing debate about the power of monetarism as an instrument of government.

As one delegate put it: "We elected the Government to make the reduction of inflation its top priority, but we didn't expect to have our businesses ruined in the process."

The argument has ranged over three separate but inter-related areas: interest rates, exchange rate, and energy costs.

The Government's drive for greater industrial efficiency and its dogged reluctance to cut bank lending rates had forced up companies' interest bills. A high interest rate had also cut back expansion and investment by making many projects uneconomic in a time of depressed demand.

A survey by the CBI showed firms operating at

only 84 per cent of capacity and only one in 16 planning new investment in plant in 1981.

High interest rates combined with a free capital market and buoyant revenues from North Sea Oil have produced an inflow of foreign funds leading, in turn, to a strong pound.

As other major world currencies have weakened relatively, sterling had risen to more than 2.40 to the United States dollar by the end of November, an effective revaluation of 25 per cent in a year.

While there is some uncertainty about the precise economic mechanism, it is widely held that a cut in interest rates should lead to a lower value for the pound.

The Government's drive to reduce the nationalised industries' drain on the public purse has effectively boosted energy costs for manufacturers.

Coal, gas and electricity are all Government monopolies and oil is priced at current OPEC levels despite Britain being self-sufficient in oil from the North Sea.

Britain, it was argued at the CBI conference, was the only energy-rich country pricing its own industry out of business.

Gas prices were up to one-fifth higher than those in Germany, half as high again as those in France, and twice those of the United States, industrialists claimed.

The Government's tough new financial targets for nationalised industries and strict cash limits might reduce the burden on the Exchequer, but did so at the expense of higher energy prices for industry.

This was a "hollow achievement", according to Roy Loader of the DuPont Group.

But at the same time, the conference was adamant that public expenditure should be reduced — although not at their expense.

John Pitts, from Tioxide, argued: "I did not expect this Government to use the irresistible power of the nationalised industries to generate revenue for itself."

And Alec Mortimer, of Independent Steel Producers, appealed for the Government "to stop exploiting energy prices as an easy option for taxing industry".

Similarly, in the debate on economic strategy delegates were free with calls for reduced Government expenditure and single-figure pay settlements but not further retrenchment.

Ron Unger, chairman of the CBI's economic and financial policy committee, argued that the disagreements with the Government were not over what it had done, but over what it had failed to do.

"The combined effect . . . is that a Government which set out to reduce the public sector is in fact reducing the private sector," he said.

Northern industrialist Michael Mallett was even more explicit.

"Our businesses are being crippled in worship of a banking statistics inadequately understood,

improperly defined, and incompetently measured," he said.

Other speakers urged Thatcher "not to sacrifice British industry on the altar of monetarism", and attacked monetarism as an "unproven nostrum" and as a "faux compass".

The problem for Thatcher in the last weeks of 1980 was both political and economic: how to achieve the Government's monetarist goals when any fine tuning would be made out as a retreat; how to cut back public expenditure to meet targets for monetary growth but without over depressing the economy.

Her dilemma was paralleled by that of the CBI. The conference supported the aims of the Government, but in effect wanted the means applied less vigorously.

The Government's own finances, of course, are not immune from the effects of Thatcher's policies.

One delegate argued that the policy was the classic anti-inflationary one of depressing demand. He argued that cutting Government borrowing, increasing Government charges, and limiting wage increases depressed demand, leading to reduced revenue at a time when the call on Government services for unemployment benefits, retraining and social services was at a peak. This led in turn to greater deficits and more cuts.

"The absolutely vital need is to break out of the spiral. The Government must be persuaded to increase demand," he said.

While his Keynesian prescription had no broad appeal, it was a theme picked up by British Leyland chairman Sir Michael Edwards.

Sir Michael argued that the cost of unemployment boosted the Government's need to borrow when a lower interest rate would encourage business to take on more people.

He also pointed to the Government's own massive interest bill of 12 billion pounds a year — more than the 1979/80 total of Government borrowing. A cut in interest rates would also reduce Government debt servicing charges, and

by lowering the borrowing requirement, reduce pressure on revenue and Government services.

Similarly in energy an "unimaginative policy" meant feedstock costs were higher than on the Continent. British industry was facing "artificial competitive pressures".

A high interest rate policy and the bonus of North Sea oil priced the pound "artificially high" compared with the rate of inflation. On current figures, the Bank of England's Minimum Lending Rate (16 per cent) is half a per cent higher than inflation.

Turned around another way by Sir Adrian Cadbury, of Cadbury Schweppes, "the rise in the pound sterling has been at a speed not matched by the rise in productivity".

But he noted that asking the Government for changes "marks a return to a policy of interventionism away from reliance on market forces".

And it was the interventionism of both the Heath and Wilson-Callaghan governments that the CBI sought to end.

Sir Terence Beckett was unimpressed by the logic.

"The Government really does now have to look at interest rates and the value of the pound. It is just not good enough to say 'the market is the market is the market'," he insisted.

The conclusion from delegates' experience of Thatcherism was that there is no longer anything sacrosanct about market forces if these lead to unemployment, bankruptcy, and industrial decline.

Equally, there is nothing wrong with the Government seeking to modernise industry through deliberate acts of economic policy, nor is the Government any longer absolved of any responsibility for managing demand for the goods produced by British industry.

As such, the conclusions might be a disappointment to the Thatcher Government which would argue that the policy has not yet run its full course.

John Bishop is a former New Zealand radio and television journalist now freelancing in Britain.

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## Letters

## SPUC looks at the media

I WAS struck by the concluding words in your recent hard hitting editorial (NBR November 24) involving the qualities you expect from Ministers of the Crown.

It is a fact that most people have an ability to see blemishes in other occupational groups but find difficulty in seeing similar or worse blemishes in their own group.

I would invite you to consider how the media generally (newspapers, radio and television) come out of the appraisal

you applied to politicians.

With appropriate word changes your concluding statement becomes: "The media must cultivate a public reputation for competence, honesty and integrity. If it fails to earn such a reputation, it becomes a liability not only to itself, but also to the country."

The Society for the Protection of the Unborn Child conducted a survey on social issues in May 1979 which included certain questions on the media. Table 12 of the report of the survey reads as shown.

You will see from the table that more than half of those surveyed considered that the daily newspapers provided

biased and inaccurate coverage of controversial issues. About half considered that television news and current affairs were biased and inaccurate in the coverage of controversial issues. Less than one third could agree with the statements.

Whilst politicians as an occupational group are subject to extensive criticism from the media most of the time (some of which is justified), I consider the overall reputation they enjoy for competence, honesty and integrity is immeasurably better than the reputation the media enjoys in respect of those self same qualities.

JD Dalgety  
Wellington

Attitudes toward media coverage of controversial issues: Total sample

Statement	Attitudes toward media coverage of controversial issues: Total sample							Mean Score
Disagree	-3	Strongly Disagree -2	-1	0	Strongly Agree +1	+2	+3	
Daily newspapers provide unbiased coverage of controversial issues:	18	15	21	17	14	8	5	-0.61
Television news and current affairs programmes provide unbiased coverage of controversial issues:	11	12	22	17	19	12	6	-0.18
Daily newspapers provide accurate coverage of controversial issues:	16	17	28	14	15	8	4	-0.65
Television news and current affairs programmes provide accurate coverage of controversial issues:	9	13	20	14	23	14	7	-0.01

# "Hello Pete, Ruby, Bruce, Anne, Roy, Les, Brian, Sir, and Graham."

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## CSR-Baigent opposition

YOUR article on the CSR-Baigent pulp mill proposal being granted a water right (NBR, 24 November) mentioned, and quite rightly so, that much of the local opposition has arisen because of the proposed siting in Eves Valley. This proposal's conflict with Nelson's booming horticultural industry over land and water use, however, are not the only reasons why it has met opposition in Nelson.

If CSR-Baigent's pulp mill gets final Government approval, possibly within the next four months, they will also have approval to purchase up to 60,000 hectares of the Nelson region for the planting of more exotic forest. This would almost double the present area of exotic forest in the Nelson region.

Farmers are concerned that such an expansion will threaten the viability of rural communities and the agricultural servicing industry.

Friends of the Earth members and others are also concerned that the pulp mill will foreclose options for other, less energy and capital intensive, forest industries in the

region in the 1980s. In particular it could squeeze out the more desirable fibreboard plant option.

Nelson Pine Forests Ltd, a 100 per cent New Zealand-owned consortium as opposed to the 70 per cent foreign-owned CSR-Baigent Forest Industries, already has planning approvals to expand their present chipmill operations near Richmond to the manufacture of medium-density fibreboard.

At present it appears that there is insufficient wood residues for both proposals to proceed. Nelson Pine Forest Ltd have indicated that if they do not secure some of the recently advertised state forest wood tender, not only will their expansion plans be halted, but they could be forced to close their present chipmill operations. If this occurred not only would Nelson lose the possibility of 55 new jobs but also the present 120 jobs. This would more than negate the claimed 100 new jobs that the \$100 million pulp mill proposal would create.

The desirability of establishing more pulp mills which could require heavy subsidies by the taxpayer to even approach being economic, is also being questioned. The Karioti thermo-mechanical pulp mill, the closest living relative to the CSR-Baigent proposal, has apparently now lost some \$12 million in the two years it has been in operation.

Derek Shaw  
Friends of the Earth  
Nelson

## Questioning Quigley

I WISH to take issue with several of the points made by Mr D F Quigley (NBR December 1) in defence of his proposed changes to the Accident Compensation Scheme.

1 He states that his committee "set out on its task of reviewing the Act with no preconceived views nor with the intention of cutting costs or reducing benefits".

If Mr Quigley's claim is correct is it merely coincidence that:

• The committee's terms of reference were primarily aimed at possible cuts in the benefits available under the scheme?

• The committee's recommendations will result in wide-ranging cuts in the benefits available under the scheme?

I think it is also significant that the Government chose to set up a partisan Caucus committee (whose meetings were not open to the scrutiny of the public or the news media) to review the operation of the scheme rather than follow established practice and set up a bi-partisan committee.

2 Mr Quigley also states that it was "no ordinary Caucus committee" but included four Cabinet Ministers, including Messrs Gair and Holland, both of whom had served on previous committees on the subject including the 1972 Gair Committee.

I suggest that this merely makes all the more serious the charge (made by the Law Society and others) that the proposed changes are a breach of the social contract enshrined

in the Accident Compensation Act — the assurance of realistic compensation for the injured in return for surrender of the right to sue.

3 Mr Quigley attempts to justify the proposal to abolish lump sums for pain and suffering, loss of enjoyment of life, and permanent disabilities of less than 15 per cent, by arguing that:

• There was originally to be no place for lump sums in the scheme.

• There should not be lump sums for minor injuries. It is not correct that there was to be no place for lump sums in the scheme recommended by the Woodhouse Commission. The commission specifically recommended that lump sums should be provided in certain cases, particularly for minor disabilities.

As Mr Quigley implicitly acknowledges, the 1972 Gair Committee, which considered the Woodhouse Commission's proposals, specifically recommended that lump sum compensation for pain and suffering and loss of enjoyment of life be provided in the Accident Compensation Scheme.

As the Law Society has pointed out, the Gair Committee recorded in its report that both the Law Society and the Railway unions had urged the need for lump sum compensation in return for surrender of the right to sue.

As for Mr Quigley's second argument regarding "minor injuries" it is probably most useful to quote some examples of people who will lose compensation under the Quigley Committee proposals:

• The old lady knocked down by a speeding cyclist and sustaining a broken elbow requiring excision of the head of the radius will get no compensation at all.

• Motorists who suffer whiplash injuries and have permanently painful necks will get no lump sum compensation.

• The school boy who fractures his jaw in a sporting accident and loses 11 teeth will get no compensation at all.

• The school girl who is injured in a car accident, suffering a fractured pelvis and a shattered femur, and finishes up with a four centimetre "shortening in the leg" and chronic backache will get no compensation at all.

• The keen young amateur pianist who loses his or her index finger will get no compensation at all.

• The carpenter who injures his thumb and can't wield a hammer will get no lump sum compensation.

4 Mr Quigley claims that the social contract was to provide "fair and just compensation" in return for the surrender of the right to sue.

In fact the term used by the Woodhouse Commission and accepted by the Gair Committee was "real compensation".

I believe that the examples given above indicate that, if the Quigley Committee proposals are implemented, not only will many injured people receive less than real compensation, but a considerable number of groups, particularly sportsmen and women, non-working women, children and the elderly, will receive no compensation at all if they are injured in an accident.

Ross Wilson  
Wellington

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## Politics

# A year not to try to push a river back uphill

by Colin James

THE Prime Minister has kicked off the political year with his annual Orewa speech. And the man so necessary to his success, Bill Rowling, has had a go, too, down in Christchurch.

Orewa has become a little piece of ritual, a holiday speech to an insignificant Rotary Club that has grown, because of its timing, into a state of the nation address.

In a country nearly devoid of ritual, it would be pleasant to think that the next Prime Minister, whether possessed of a holiday house at Hatfield's Beach or not, might continue to open the year in this way.

The Orewa speech was first an informal talk. Now it has become a major event.

Economists will pick over the projected inflation rate, unemployment rate and balance of payments deficit and argue about the policy or lack of it to be found there.

For politicians and for us, the creepers on the tree of politics, the interest boils down principally to whether the pussycat has changed his cushion.

In the Budget last year he began to spout the rhetoric of the private enterprisers and more marketers — qualified, but recognisable.

Then as the year went on he shifted the weight of his attention from the "today's dirty word" of inefficiency" line of the Budget to "think big" — the Government's energy and heavy industry development policy.

I am not suggesting he is resiling (lovely word, that) from his Budget statement. Evidence on the matter is neutral.

Rather, it seems, he is slipping a bit into the more comfortable mould of the dealer in the practical and immediate, rather than in concepts and principles.

He, in effect, says: accepting the type of society as fixed, make it more affluent (main objective) through big projects and detailed economic management measures (secondary, but preconditional, objectives).

A Quigleyite would turn it round to say: set business free and thus reorder society (main objective) and New Zealand will become more affluent (secondary, but consequential, objective).

So we had at Orewa a sensible, restrained, speech about the year ahead — oil prices, export prices, interest rates, tax, unemployment, the Australian talks — with a longer term vision of milk and honey: "...the movement in the energy field...brings New Zealand back to the top of the heap where we were perhaps 20 or 30 years ago, provided our people understand what is happening and throw their weight behind it."

But of rationalising industry, deregulation, sorting out transport, scarcely a syllable.

And as for tax reform, concentration once more on trading income tax cuts for wage restraint, rather than taking it on to next step, trading income tax for indirect tax, though there was an indication that he recognises the opportunity is there and may yet take his Federation of Labour deal that far.

So, in the Orewa ritual this year: a message of cautious economic management, hope of a lower-tax society and a big-project vision of the future, all to give the voter something to

vote for against Social Credit.

Ritual has an important place in politics, as an illusion of activity which in turn gives the illusion of power, of politicians being in control of events when the reality is the other way round.

But even actual political activity — the raising or lowering of taxes, the passing of laws saying Eric Sides may not ask for a Christian mechanic, the busy meetings with Jim Knox and Co — is the cloak of power rather than the body.

Of course, we have to pay the taxes. Eric Sides has to invite his applications from neutered eunuchs and we might have to go through different hoops to get our wage rises. In that sense we must bow to the politicians' "power".

But if there is a general tolerance for higher taxes and better education the low-taxers will fall at the polls and the high-taxers will be emboldened and wax more numerous: thus came the Labour Party in 1935 and thus changed the National Party in the 1950s.

And if there is a resurgence of church-attending the secularists will dwindle and Eric Sides will eventually be free again to ask for his Christian.

I am not talking about fads or waves of popular feeling on some issue or other. I am talking about the deeper changes in society.

Politicians like to give the impression they can make rivers run uphill. At best they can build diversion channels so the rivers pass close by their fields.

The great political skill is not to make currents flow uphill and down at will — as Mao and Hitler and Napoleon all found out. It is to harness the current.

That is what this year's politics is about.

We will get excited about Derek or Duncan to be or not to be a heartbeat away from our beloved leader. We will get excited about the petty machinations of the political lumpenproletariat in the Labour Party. We will scan the opinion polls with the avidity of racegoers.

But if we fix our gaze so myopically, we may miss the changing of the current. For there are strong signs that it is shifting.

There are several manifestations of the shift.

One is the rise of a libertarian approach to economics. This has been strongest in the National Party in the generation that grew up after the war. But it has had a strong spinoff in the Labour Party in the move there among a postwar generation of rising stars down the Douglas (of the Roger variety) path.

But the Ian McLeans and Derek Quigleys were not making up the new mood and persuading the public to join them. Rather, their ascendancy reflected a shift of mood in the public at large against taxes and handouts (for others).

This shift was social, rather than economic in character. Under economic strain the electorate does not look for theories to save them, but for leaders. If the strain persists they go deeper, questioning the established values and norms.

Thus during the past two and perhaps more years the prevailing "liberalism" — a word chosen for want of a better to describe the progressive state intervention in economic and social affairs since the 1930s to



Ben Couch...offers homespun homily.

promote equality coupled with progressive removal of the state from moral affairs — has been under question.

During the journalistic "silly season" of the past few weeks Ben Couch offered another of his homespun homilies, this time calling for the birch.

While editors fulminated with liberal indignation, Couch said he had the people with him: "I'm a lot more in touch with New Zealanders' thinking than the theorists. I suggest they go and find out what their neighbours think."

He was probably right,

though, equally probably, not in the way he thought. All the theorists' statistics proving the birch does not cure criminals are irrelevant; the birch's value is that it exacts revenge. When things go wrong, the first human instinct is to hit out.

And it is revenge against the liberal excesses that the voters seem to want now in this time of economic strain.

In Rangitikei in 1978, according to a survey to be reported in NBR in a week or two, voters who thought economic changes were needed were more likely to nominate changes of a social or moral than a strictly economic kind.

If you don't believe the conservative shift, ask the politicians. Ask about the killing of drinks at 18 (and even cafe and aircraft licences); ask about the lightning strike against a "too-liberal" abortion supervisory committee; ask

about the moves being readied to curb the Human Rights Commission.

Quietly, but perceptibly, the current has turned against the liberals.

Those radical feminists and homosexuals who refuse the liberals' intermediate solutions now are like swimmers who ignore the nearby rock in the belief that the current and their next strokes will carry them to a bigger one further on — but who may well then find the current carrying them out of reach of even the smaller rock.

This turning of the current is symptomatic of a deeper river of change, which has thrown all parties' fortunes in the melting pot.

Pushing the river back uphill will not work. He who can cut the best diversion channel by the end of this year may well reap richly fertile fields in the 1980s

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## New light on old problem

by Grev Wiggs

THE intractable problem of media selection in the trade journal field is on the way to being whipped by a novel but effective research approach.

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"The only journal covering all members every month," asserts *New Zealand Engineering*.

Even circulation stats do not provide the answers to the vital questions of depth of readership and readers' attitudes to any one publication.

And there is no independently conducted research on the reading habits of such specific business target markets.

To add to the problem, advertising budgets in these fields will never justify the cost of widespread research on so many diversified target groups.

Available research has been disseminated by individual publications and is regarded as biased in certain quarters.

Faced with such a problem, a Wellington media man has arrived at an ingenious, simple and low-cost answer which he has dubbed specialist target audience research or "STAR" for short.

SSC&B:Lintas Worldwide's media manager, Andrew Watson, had the problem of reaching architects, engineers and government purchasing officers who represented target groups for Philips acoustic, security and lighting systems.

"Because advertising budgets on technical subjects tend to be limited, there is all the

more need to make justifiable recommendation," Watson told *Admark*. "I am familiar with the new computer-based facility developed by Admedia Services for measuring radio audiences by telephone survey. It occurred to me that we could use the same techniques in a readership study."

The steps were to calculate the potential number of each target group, to determine the sample numbers required for an accuracy level of plus or minus 3 per cent and to supply the names and telephone numbers of each target group to Admedia for random selection of the required number. Most organisations in technical fields maintain exhaustive customer and prospect lists compiled over a period and regularly updated.

The sample size for each group was about 100, assuring

that the survey costs could be kept at a very reasonable level.

Each respondent was asked to answer a series of questions over a five minute period and the refusal rate was remarkably low.

First checked was familiarity with a list of publications read from a computer screen. Then questions relating to frequency of reading, time spent reading and a rating for the degree of helpfulness provided by each magazine.

Answers to questions were recorded progressively on the computer so that the aggregation and analysis of the answers was speedily conducted.

Philips advertising and market research manager John Van de Burgh was enthusiastic about the development.

"Previously we were selecting media by a seat-of-the-pants method or on recommendations

from our salesmen. But we had no idea of effectiveness. We have now eliminated the journals which are not sufficiently read by the target group. We are to carry out more of the same kind of research next year. We're very happy to make use of the idea."

## The ultimate computer

AN extract from an article by Grey Advertising creative director Dick Kiernan reprinted by Ward and Grey Newsletter: "Is the decision to test really a decision not to make a decision? The social scientists call it the abdication of personal responsibility, others call it not being willing to stick your neck out."

"That's what management writes big paychecks for. Fortunately there is a new breed of managers emerging on both the client and the agency side who understand this; who dare to say, 'I like it, let's do it.' But they don't think it's a dare, they think it's their job. Could the judgement be wrong? Sure."

"Good managers aren't supposed to be infallible, but right more often than they're wrong. It just so happens that the ultimate computer is here. It has billions of components, can process information with amazing insight and can even factor in the intangibles: emotion, motivation, originality, clarity and expression."

"The ultimate computer goes by differing names - brain, soul, imagination, taste, foresight, vision. It is meant to be used. And it is used by the comers, the people at every level in business who lay their judgements on the line - well-informed judgements that research has aided, not supplanted."

"Not so strangely, these comers are the ones most often linked with success - the products they handle, the profits they generate, the promotions they receive."

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And, of course, which weekly news magazine has the highest weekly circulation? That's right, TIME.

Survey of Time New Zealand primary readers by Erdos and Morgan, Aug-Oct., 1979.

## Economics

## State of the nation: choosing the viable option

## Economics Correspondent

THE country used to be closed in January. But, before the month was half gone, the Prime Minister and the Leader of the Opposition jolted the media out of summer vacations with state of the nation addresses.

Prime Minister Rob Muldoon spoke from Orewa about the virtues of "think big" energy development. The Leader of the Opposition, Bill Rowling told the Christchurch Press Club that medium and small-scale developments will be more capable of making use of our scarce labour.

Kiwis, who have traditionally traded dark offices for the even darker atmosphere of country pubs, favourite holiday spots or just lazing around doing home improvements during the summer, are taking life seriously these days. And even if they were not, the politicians are.

Muldoon began his speech in a light vein, downplaying the import of his message. Journalists who have treated this annual address as a kind of budget statement of Government economic policy had "read into it far more than is intended in what is essentially an informal speech."

But it appears that this disclaimer was only intended to put the audience in a relaxed mood. After a few jokes about economists ("economics is common-sense made difficult"), Muldoon's speech became deadly serious.

Bill Rowling, made no bones about the significance of what he had to say. "It's important, because it means that... the country will be presented with two views of our economic and social future and two alternative approaches to economic management."

And we were given more than two views because lurking like a ghost in both speeches was Social Credit's policy. The subjects of interest rates and monetary policy were brought up in Social Credit's honour.

Despite their lack of common sense, economists are born with the knowledge that there is more than one way to skin a cat. Some ways are more costly than others. Some are more direct than others. Some ways give less certain results than others.

This message has finally gotten through to our political leaders. Rob and Bill agree that we have several options for putting the economy right and none of them are soft options. Both devoted their speeches to the need for a realistic approach to economic management.

In Rowling's words: "Thirty years of economic consensus have disappeared. The two potential governments of this country will be presenting a very important and fundamental economic choice... there are no easy outs from that choice."

Muldoon used a parable to explain the existence of trade-offs: "If you take a canvas bag of water and press it in at one point it will bulge somewhere else or sop over the top; so it is with the economy. If you take action to improve one section only, then another section is likely to deteriorate automatically."

"If you increase activity to mop up unemployment, your balance of payments deficit will increase. If you cut taxes your government deficit will increase and that tends to be inflationary. If you cut government spending to reduce your government deficit, then

you will increase unemployment."

But Rob and Bill tell different stories about the past. To Rowling the last five years are years of wasted opportunities. Muldoon thinks they were a time of change for the better.

The leader's views of economic activity during the next 18 months differ radically. Rowling thinks there will be slow or no growth, inflation between 18 and 20 per cent and rising unemployment. Muldoon thinks there will be rising growth, inflation of less than 16 per cent and falling unemployment.

Muldoon has changed his line about inflation. He no longer boasts about his ability to get inflation down to 10 per cent (an ability we have yet to see). Now he claims that he was overly pessimistic and did not sufficiently recognise the resilience of the economy to live with double digit inflation.

Rising growth will curtail unemployment which will in turn reduce the \$250 million spent on unemployment, according to the Prime Minister. Rowling predicts that growth will be too slow to reduce unemployment.

The size of the Government

can be taken as party policy.

Muldoon emphasises that capital intensive energy developments are the means to provide jobs for young people. With oil expected to reach \$35 a barrel, our energy resources are commercially viable for exploitation. These projects can be funded externally because they earn external funds which can be applied to pay loans and they provide benefits through downstream activities and ancillary activities, as well as from the surplus of overseas funds generated.

Muldoon believes there are enough projects on the drawing

boards conservatively at \$8000 million, to which the cost of electricity development must be added. This investment has to come from somewhere and Rowling fears that local competition for funds will crowd out farming interests and small and medium scale manufacturing.

Rowling is also skeptical about downstream development. He estimates that we will achieve only a grand total of 4000 permanent full-time jobs for our investment of \$8000 million. "Each created at a cost of up to \$2 million a job at a time when, at a minimum, we need to

But Rowling's alternative government rejects the complete reliance on investment in big projects. It does not intend to commit "available investment to a handful of high risk low job projects".

Muldoon finds it "quite extraordinary that both of my political opponents appear to be opposed to part of energy intensive developments". He claims that these new developments will produce 7400 jobs, all in construction. And these will lead to other jobs so that in total 20,000 new jobs will be created a year.

These are estimated to increase our total import bill by about \$120 million. But, as the country becomes more energy independent, there can be a greater commitment to free international trade which in Muldoon's view will bring us once again to the top of the heap.

In honour of Social Credit, both speakers offered their views on monetary policy.

Rowling believes that "the so-called freeing of the monetary sector of this country in 1976 was one of the biggest mistakes this Government has made. Free market theories may work if there is perfect competition. The New Zealand economy does not have perfect competition. What happens instead is that those able to pass on costs bid for finance, while those industries where we are desperate for expansion in the exploration field, starve."

Labour would take firmer control of government-owned financial institutions and demand that they behave as agents for priority lending.

While still mouthing free enterprise slogans, Muldoon's monetary policy would not be all that different. He will continue his policy of moving actively to prevent interest rates from rising.

Muldoon said "the Government can, and indeed if necessary will, repeat the penal increase in ratios which was applied last year to both finance houses and insurance companies."

Muldoon spent considerable time in his speech on the topic of reducing income taxes. He wants personal income tax movements to be treated as wage movements; a cut in personal income tax would be accepted as the equivalent of a wage increase.

And indirect taxes are not likely to be applied to make up the shortfall in revenue because they are unpopular. Muldoon made the astonishingly honest admission that his Government must have regard for the political element. Muldoon worries that people expect his Government to be bold but "the answer to them is that if we are too bold and we upset too many people, even though their views may be illogical, they will vote against us."

With Social Credit emerging as a major political force, the support of New Zealanders is spreading in three directions. The two speeches show that these directions are quite different from one another.

Any leader that is going to run the country and the economy under these conditions cannot expect to always find the most popular option. And popular short-run policies may mean the economy never gets sorted out.

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Inflation is mainly caused externally, with oil prices making the major impact, in Rob's view. The other important cause of inflation is wage rises. The same day of Muldoon's speech, the Department of Statistics issued a statement that prevailing weekly wage rates rose by 21 per cent in the year to September 1980 and that this may understate the rise since backdated increases were not taken into account.

Rowling believes that inflation is substantially generated in our own economy and can be controlled.

The wage statistics support his view since such a large increase is bound to be inflationary. Perhaps Muldoon has been too soft on the wage earners.

deficit is not the main cause of Rowling's concern. It is that "much of that increase will relate once again to a massive, completely artificial election year boom... it is the direction and the timing of that deficit which is self-defeating."

And Rowling also predicts that the balance of payments deficit will rise sharply. Muldoon avoids discussion of the outlook on the balance of payments front by describing events of the past year when the deficit fell, gloating over the success of policies to increase export volumes and hold down imports.

"If anybody can, the Kiwi can."

The differences between the two parties become even more pronounced when it comes to policies, if the leaders' speeches

board to contribute, directly or indirectly, to the 200,000 extra jobs that we need during the coming decade.

Rowling pours cold water over the Government's "think big" programme. He sees no substantive and coherent strategy to back up the slogan based on "a belief that if we scramble on, ignoring the basic structural problems that are tearing the heart out of the country, and throw everything we can borrow or beg over the next two decades into a handful of massive energy-based high-capital, low labour content projects, essentially overseas owned, somehow everything must eventually come right."

Labour are prepared to push ahead with development that will assist in breaking the cycle of entrenched unemployment.

create 300,000 jobs just to cope with the increase in the labour force."

But given the low number of jobs created, Rowling would risk the investment and capital diversion if there was a guarantee that the balance of payments would improve. But "a few million off the balance of payments is meaningless, if it is achieved at the cost of another 10,000 out of work."

In Rowling's eyes, "unemployment is the biggest economic and social issue that we face". The most constructive section of his speech is devoted to an outline of policies to combat, as well as soothe, unemployment.

Labour are prepared to push ahead with development that will assist in breaking the cycle of entrenched unemployment.



## Manufacturing

## Woollen mills weaving the way to success

by Lindsey Dawson

THERE IS little point in trying to get an appointment with the general manager of Onehunga Woollen Mills on a Tuesday.

Every Tuesday he is closeted with his top four executives for a 12-hour motivational session with the aim of gaining business success and job enrichment.

They have invested in a three-year course in human resource development through Massey University. It is working well says 35-year-old General Manager Roy Cooper — and if statistics are anything to go by he would seem to be right.

At a time when the textile industry is staggering, Onehunga Woollen Mills is on the up curve. Its turnover is expected to double from \$2 million to \$4 million in the coming financial year, and this year's exports will be around \$1.3 million, up from a mere few thousand in previous years.

The company, a Bing Harris Sargood subsidiary, got a boost last year when it won the contract for supplying fabrics for Air New Zealand's 747 fleet, and is expecting further airline business to follow now that it is on Boeing's list of approved aircraft textile suppliers.

Once known only for its blankets, the company is diversifying into lines ranging from car upholstery to heat-resistant oven-mits. Its staple product is selling well as a result of a big export push in the United States.

Cooper joined Onehunga early last year in something of

an executive clean sweep. He came from Matheson International, a UEB carpet company in Invercargill.

Sales and marketing manager Charles Edlin, previously general manager for the El Jay fashion firm, was another new recruit. Edlin says he was reluctant to join because he was happy at El Jay, but he could see the potential and has no regrets. "There's a great feeling of energy here — the morale is very high." He says that Cooper is frequently at his desk before dawn and all the executive staff are usually hard at it by about 7.30am. Optimism is booming.

There are few executive perks to be seen in the working conditions at Onehunga. The office building is almost 100-years-old and Edlin works out of a poky little room with no exterior windows. "We're not going to impress anyone with the outside trappings," he says. "We can only impress our clients by direct action. Our aim is to make what clients want, not to try to get them to buy what we want to serve on them."

As well as supplying car seat upholstery fabrics for Todd Motors, Ford Motors and Motor Industries (to the tune of about 2000 metres a week), Onehunga is also moving into the furniture upholstery field, selling to local and Australian manufacturers.

The company is also developing clothing fabrics suitable for sportswear.

New Zealand wools are not suitable for fine suiting materials, but says Edlin, there is no reason why Onehunga can't make good sportswear cloth.

The company has scored a world first this year by producing a rescue blanket designed to fight hypothermia (loss of body heat). It has been approved by the World Life Saving Association. The same heavyweight blanketing is also being adapted for use as heavy-duty oven gloves. The concept is still being tested, but Edlin says there is already considerable interest from hotels and commercial caterers for use in their kitchens.

Onehunga is also diversifying from their top-line Princess and air-cell blankets into screen-printed, light-weight rugs which are being printed with Maori motifs for tourist trade, and are being sought after as promotional items. A recent order was for rugs printed with a six-colour picture of the round-the-world yacht Ceramco.

But the best recent news for Onehunga was the confirmation of the 747 order, worth \$220,000. Fifty-thousand miles of yarn — enough cloth to cover 750 living room suites — is coming off the looms in intricate jacquard designs which are an abstraction of Air New Zealand's koro motif, plus

toning textured fabrics in shades of deep blue, emerald green, and golden orange. The seat fabrics for the first class and business sections are somewhat more subdued in muted stripes of deep purple, navy and sand. Onehunga has been working on their development since February. Aircraft fabrics have to pass stringent tests for flame-proofing, smoke emission, moth proofing, spill-resistance



Air NZ cloth business boosted by Boeing contract

and wear. Seat covers are stripped for washing every three weeks so they have to be able to survive rigorous cleaning as well. The fabrics had to be tested by the airline and Boeing before acceptance. Cooper hopes that the Air New Zealand contract will lead to more airline work, specially for smaller companies. "Many of the overseas

suppliers aren't geared up for small runs but that's no problem for us at all. We couldn't cope with the likes of Pan Am but there are plenty of small airlines around the world."

Meanwhile there is also satisfaction in the development of sales of Onehunga's standard product. The mill has just opened a retail store selling

blankets and linens in Auckland's new Plaza shopping centre, and is busy fighting the challenge of the continental quilt filled with down or dacron. "We believe there is a return to the traditional blanket because it gives you better temperature control. A quilt is either on or off making you too hot or too cold," said Edlin.

The new shop will also be used as a means of "listening" to public demand so that the mill can be more responsive to the market. The old mill itself will soon provide some good PR as well. Most companies might remove the old brick buildings and put up something smart in glass in steel. But, says Edlin, it will stay intact as a piece of Onehunga's history. Its quaintness will be enhanced by shutters and cobblestones and a tour guide installed so that the woollen mill can be added to the city's tourist attractions.

## NZ blew cold air on airships idea

by Duncan Campbell

LIFE is as hard as ever for the innovative thinker.

Just after World War II a Wellington reporter wrote an article on the possibility of installing an undersea power cable to link the North and South Islands for a one-system, hydro-electric power generation.

"Ridiculous," said the sub-editor who read the article. "That will never happen." And he slammed the article on his reject spike.

Just as events have proved the sub-editor wrong, so have the attacks on an entrepreneur who sought public backing to employ an ex-war-time landing craft to ply between Wellington, Picton and Nelson. A newspaper effectively killed the initial scheme, but the entrepreneur's basic idea was proved to be sound by the subsequent introduction of the Railway Department's rail-road ferry service across Cook Strait.

Today events are moving to prove the worth of the innovative thinking of yet another man whose ideas have been disregarded. He is P W C Monk, the former chief designer at New Zealand Aerospace Industries, Hamilton.

Monk put a great deal of effort into convincing New Zealanders of the virtue of building their own airships.

Setting out the detailed economics of his proposals, Monk repeatedly explained to specialist audiences throughout the country how airships could get meat and dairy produce to overseas markets more quickly and more cheaply than by sea. Unable to spread his airship gospel in this country, Monk gave up trying, returned to Britain and is now with Airship Industries Ltd on the Isle of Man.

The difference, of course, is that the airships Monk will now be helping build will be used for British, not New Zealand exports.

The team he has joined employs 60 people, supported by consultants and subcontractors. Apart from work it has already done, Airship Industries has signed an agreement with a Surrey-based airline, Redcoat Cargo Airlines, which will make it the first company to manufacture commercial air-

ships since the last Zeppelin flew in 1939.

Redcoat Airlines has ordered four airships for delivery by 1984 and has taken an option on a further 10 at a cost of, apparently, \$9,857,000 each. The airships ordered will be 600 feet long and 120 feet in diameter and will contain 4.2 million cubic feet of the inert, non-flammable gas helium.

The craft will be powered by four 1150 hp engines and will carry 58 tons of cargo at up to 86 mph. It is said they will be able to make trans-Atlantic crossings from Britain or from there to the Middle East or West Africa in two and a half days. Initially, the ships will be made for carrying cargo only.

The huge expansion prospects that the airships open up may be best gauged by con-

sidering that Britain currently exports 20 per cent of her goods by air and that those goods are valued at about \$19,714 million. And airships are reckoned to cut present air transport costs by 29 per cent — costs which will rise as fuel prices continue ever upward.

The airships planned by Airship Industries Ltd have a carrying capacity of 37,755 cubic feet of 56 per cent more than that of a Boeing 747.

Landing sites will cost a fraction of the landing areas at today's airports and airships will make it possible to fly cargoes direct from factory to factory.

All of which indicates that innovative thinking can throw such a spotlight on the possible that its effect on the timid will be to make them take fright.

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## Secrecy

## Criticism spurs democracies to greater efforts

by Warren Berryman

DEEP within the democratic ethos runs a common belief that holds our procedures and institutions together in a coherent bundle. It is akin to Lord Acton's maxim: "power corrupts and absolute power corrupts absolutely."

If we did not believe governmental power to be inherently evil, there would be little justification for costly and time-consuming checks and balances, parliamentary debate, an independent judiciary, an official opposition, or the franchise.

These forces were instituted in the hope that, through criticism, informed debate, and the franchise, the inherent evil could be checked, halted and harnessed to serve the public good.

Theocratic or totalitarian ships of state sail faster than ours on a calm sea of blind public faith or unquestioning obedience, or they rely on force and fear.

Democracies, as Alexis de Tocqueville prophesied, are like rafts, ponderously slow, getting everyone's feet wet, but unsinkable.

Democracies founded on Anglo-Saxon traditions have not only survived; they have prevailed.

The secret of their success perhaps lies in the "two heads" theory of public participation. Criticism in a totalitarian

THIS is the third part of a series in which Warren Berryman considers the American Freedom of Information and Privacy Acts in theory and in practice and compares the United States system with our own.

regime is apostasy. In a democracy criticism is the highest form of patriotism; it is a service, for it may spur the country to do better. And it is a compliment, for it evidences a belief that the country's potential is far greater than the present actuality.

By contrast, rituals of national adulation are the lazy man's way out — an escape from freedom and rationality itself.

Democratic theorists from Hobbes to Mill maintained that the individual citizen gave up some personal autonomy to the state in return for security, but held certain rights. Like any good employee, the democratic citizen was to be informed about what his public employees were doing and why.

Denied this information, his vote on election day would be cast in ignorance, and democracy would become a farce.

In the same way that a business enterprise is only as good as its competition forces it to be, governments are only as good as its watchdogs (the press, parliamentary opposition, the intellectual elite, and an informed public).

Constant scrutiny by press and public makes it difficult for governments to govern. It also makes it difficult for them to govern badly.

The Nixon era, with its revelations of official lying, corruption, lawbreaking and general abuse of power, jolted the American people into reaffirming their right to know what their government was doing and why.

The American Freedom of Information Act of 1966 was amended in 1974 and given teeth. That year the Privacy Act was passed protecting personal privacy and establishing individuals access rights to their own state files and a right to correct them.

The Sunshine and Advisory Committee Acts opened government agency meetings to the public with the exception of 10 specific exemptions.

The American public is regularly informed through the Federal Register about the day-to-day activities of each government department, making it difficult for the government to slip anything through unnoticed.

Political campaign contributions to parties and candidates are a matter of public record in the United States. The American public and press can find out how much money any politician received and from whom.

If the watchdogs suspect a senator or representative of doling out patronage to those

who provided campaign funds, it can be checked. It's a matter of public record.

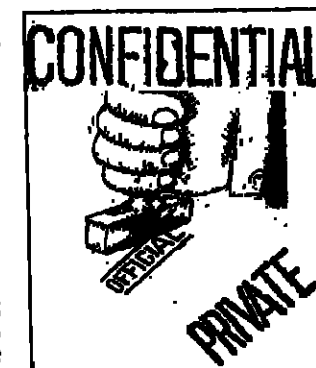
More important, perhaps, than all this legislation is a widespread belief that the public do have a right to know what their state employees are up to and a readiness to demand that right.

The impression gained by this reporter from interviewing American bureaucrats and politicians in Washington late last year was that having a secret was dirty, sneaky, and untoward. They almost leapt at the opportunity to unburden themselves of secrets, lift their carpets and show there was no dirt underneath.

After interviewing one senior legal advisor to a House of Representative sub-committee in a staff cafeteria on Capitol Hill, I asked if it was unwise for him to be seen talking to me. "What if I write something your political masters don't like? Won't they blame you?" I asked.

"Hell no," he said. "In our department, as in many government departments, only very senior civil servants have the power to refuse information. Others must provide information when requested."

That answer, from a New Zealand bureaucrat, would be music to a newsman's ears. It exemplifies the fundamental difference between American open government and this country's secretive system.



According to American popular belief, access to information about government and data gleaned by government is a right, not a privilege. After all, the taxpaying public pay the wages.

The American Freedom of Information and Privacy Acts make it clear that the public servant is a civil servant, not a government servant. The job is to serve America, the public, and its long-held traditional values, not the transient exigencies of political masters.

Our Westminster parliamentary model also lauds the stability provided by a professional civil service that carries on from one government to the next.

But New Zealand's Official Secrets Act makes it clear that our public servants are expected to be servants of the government in power, not servants of the public, if and when

the two roles conflict.

Every scrap of information gleaned by our bureaucracy is the property of the relevant Minister to withhold or publicise to his own advantage. Every scrap of information about the activities of government departments is the property of government, not the public whose job it is to judge and elect or reject it.

Government servants are not free to tell a journalist or private citizen anything about their job — theoretically not even the time showing on the departmental clock — without ministerial approval.

The gliver and receiver of unofficially released information are liable for imprisonment under the Official Secrets Act.

The golden rule for government servants is "never tell the truth if the truth will embarrass or inconvenience the Minister, a government member, or departmental head".

This secrecy, deception, and cover-up in the higher echelons of government, which the Official Secret Act encourages, mocks the principles of accountability on which democracy is based.

This country has no constitutionally guaranteed freedom of the press. No matter. There is an assumed right to freedom of speech.

But what use is this if we are forced to guess or speculate as to what happened, why it happened, or at what cost to the taxpayer?

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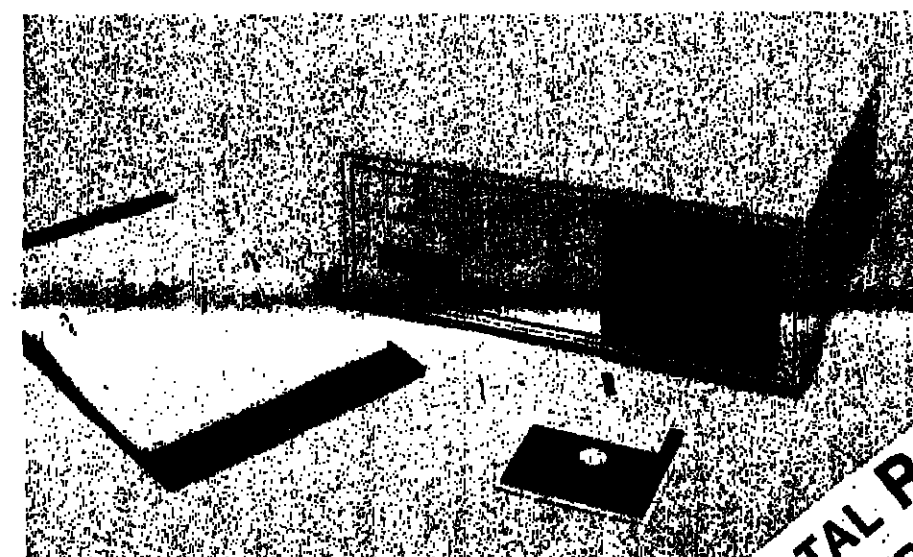
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## Sacred phenomenon

## The (Eternal?) triangle comes to politics

OVER the past few months Social Credit has leapt skyward in the polls and held itself in its new position. This phenomenon poses the possibility that there has already occurred a fundamental shift in New Zealand political allegiances that may be irreversible.

Colin James begins today a series on the Social Credit rise, its implications, the sort of people who are making the shift and the sorts of reasons that may lie behind it. Today he applies a three-way pendulum to the December Heylen Poll, which showed the three parties close together.

The series is mainly drawn from material now being prepared for publication in book form, covering the 1975 and 1978 elections, detailed surveys in Rangitikei, Roskill and Wairarapa in 1978 and 1979 and Heylen Polls and analyses since 1975.

by Colin James

NATIONAL 37, Labour 36, Social Credit 19: a minority National Government in office at the pleasure of the third party.

That is the way the seats would have fallen if the Heylen Poll taken on December 6 and 13 last year, was an election result — and in the unlikely event that votes moved in the same proportions in each electorate throughout the country.

The seat allocation is made using a three-way pendulum devised in 1979 by Ray Tomes of Tomes Statistical Research Ltd. The pendulum, which uses a logarithmic scale for easy reading, plots the effect of relative shifts in voting support for the three main parties.

My calculations using the Tomes pendulum show graphically the "three-party" nature of politics as we go into election year.

The three-way swing is shown on the accompanying

chart by the movement of the axis from its 1978 position (heavy black line) to the position indicated (broken line) by the Heylen Poll. That poll measured National at 36.0 per cent, Labour at 32.1 per cent and Social Credit at 31.0 per cent (1978 election figures were National 39.8 per cent, Labour 40.4, Social Credit 16.1).

Fifteen National seats would have been swept into the Social Credit to join Rangitikei and East Coast Bays, which would both have stayed put.

National would have made up a little of this by picking up two Labour seats, Taupo and Western Hutt and Labour would have lost two more — Hastings and Waitakere — to Social Credit. (Statistically, it would also lose Island Bay to National, but there was a split Labour vote there in 1978).

Contrary to the Prime Minister's rose-spectacled view of the political world, it is his party that loses most seats in

the Social Credit surge. Only slight changes to the figures would put Labour in front in seats.

Only a small additional narrowing of the Social Credit-National gap would tip another five National seats to Social Credit (including Taupo) and a further 10 (not included on the chart) would have to be considered at risk.

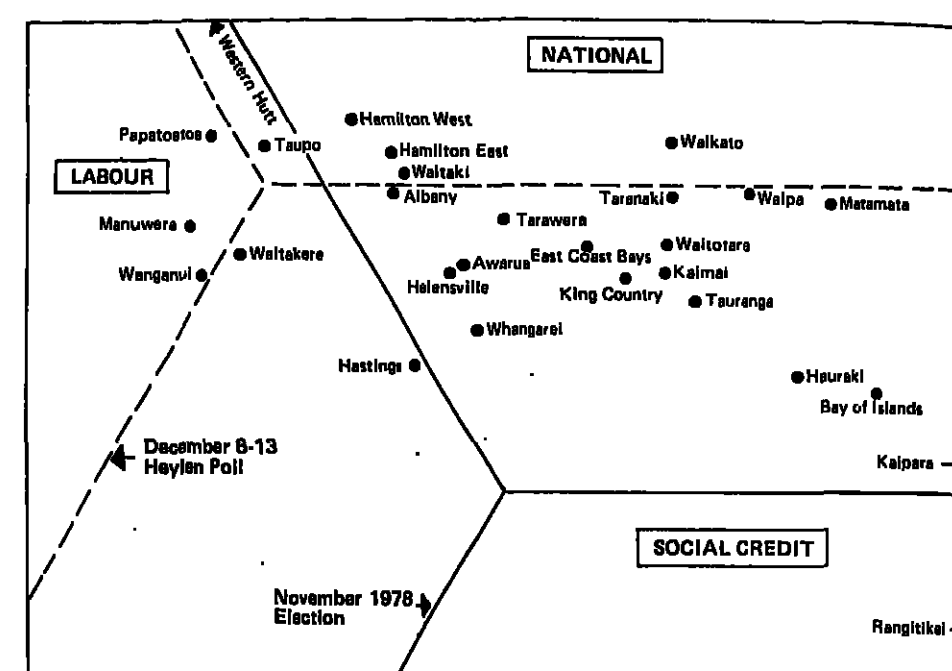
The same additional change in the Social Credit-Labour relationship would get Social Credit only one or two more seats — Wanganui, and perhaps Manurewa.

It is therefore not too hard to imagine a situation at the end of this year in which Labour forms a minority Government with the tacit support of Social Credit — a scene uncannily reminiscent of 1928, when the decrepit Liberal Party squeezed back into power on the sufferance of Labour, then the rising third party.

The parallels go deeper. Though the Social Credit assault would be most visible on National (losing a net 13 seats on the Heylen Poll figures), the real rot would be in Labour's electoral support.

Already in 1978 Labour was third in nine seats, to which can now be added East Coast Bays. The Tomes pendulum shows Labour falling to third party status in another 24 seats.

That makes a total of 35 seats. By comparison National would be third in 15 seats (four of them Maori seats).



The only place where Labour would be truly safe from the depredations of Social Credit would be in the South Island — the home of dying parties as Professor Bob Chapman once described it.

Across a broad swathe of the North Island — north and west of a line drawn from Feilding to Whakatane — Labour would be third.

In greater Auckland it would hold second place (in 1978 it was first), but on the North Shore and in the western suburbs — indeed, right round the fringe of the metropolis — it would be third.

Outside Auckland, Labour would do better than third only in New Plymouth, Wanganui and Taupo within this north-western half of the North Island — the Social Credit belt.

And since it is that region that is the engine-room of the New Zealand economy, in gas, manufacturing, horticulture and forestry, the picture is doubly grim for Labour.

Late last year Labour strategists (or, at least, some of them) were clinging to one ray of hope — the two elections theory.

This argues that Labour could lose out badly to Social Credit in National-held areas, while still waging an effective battle on the National-Labour border in seats like Kapiti and New Plymouth.

National president George Chapman has been peddling a variation of this. He has argued that the National-Labour swing in 1978 was big where it did not count much but low where it did, in the nitzy-gritty marginals — witness National's fingertips grip on power with a minority of the votes.

The Tomes pendulum does not support Chapman. In the 12 most marginal Labour and National seats in 1978 (and, for that matter, in the 16 National marginals) the swing to Labour from National was above average.

The swing from National to Social Credit was slightly above average in the most marginals and average in the National marginals.

The pendulum also dents the Labour theory. In metropolitan Auckland not only did Labour win an above-average swing from National but so did Social Credit from Labour. And a high National-Labour swing in Christchurch was accompanied by an average Labour-Social Credit swing.

But there is something to the two-elections theory. The National-Labour swing was highest and the Labour-Social

Credit swing close to lowest in the safest Labour seats.

The National-Labour swing was above average in marginal seats and the Labour-Social Credit swing below average. The Labour-Social Credit swing was highest in safe National seats (and the National-Labour swing lowest).

If this pattern was applied to the December poll, it might have a dual effect:

- To hold back Taupo and Western Hutt from National;
- To push another National seat or two in Social Credit's direction.

Thus, even on the December poll results, there could be a minority Labour Government, which is a sobering thought for a too-cocky Prime Minister.

However, whether the two-election pattern will still hold in today's political dynamics is not a simple question — and one to which I will return.

NEXT WEEK: Who are the people the Heylen Poll has been recording as shifting to Social Credit since East Coast Bays? Pointers from a special analysis for the National Business Review.

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## Government administration

## State tightens up financial management systems

by Colin James

SOME progress appears to be being made in improving financial management systems in Government departments. But there is a long way to go yet.

Attempts to improve financial control followed an investigation by the Audit Office in 1977, published in 1978. The Audit Office found major shortcomings in accounting procedures which were hampering attempts to control Government spending.

This prompted a closer look by Parliament's Public Expenditure Committee at several departments, particularly trading departments or divisions, such as the Government Printing Office, the Forest Service and the Government Architect (a division of the Ministry of Works).

Reports on these three have urged a more commercial approach to their work, with more rigorous costing methods and a charge-out system.

As an MP puts it: "Their control of cash and expenditure was fine, but their accounting systems were inadequate for

their needs. There are things they needed to know that the existing systems could not give."

They needed to know how efficiently they were performing different operations. Without that knowledge, they could not improve their efficiency.

As the MP says: "If you don't know what your capital is, you cannot work out your return on capital. And unless you know your real costs you cannot work out pricing."

On the broader front, the committee has been concerned that inadequate information from departments may be adversely affecting major macro-economic decisions.

"You have to know your true costs to determine what resources are being used," the MP says.

A departmental task force has been reporting twice-yearly

about branching. A report in Britain had criticised branching activities, he said, but he would watch developments closely — particularly the cost aspects.

Other sources said there was scope for paring staff numbers. One described the New Zealand Co-operative Terminating Society as "lush" with staff compared with its counterparts. Pruning may result from Northern's management.

Building Societies registrar Prisk predicts that by the end of the year about six national building societies will remain, and perhaps 14 provisional organisations similar to the Wairarapa Building Society.

A building society advisory committee comprising the registrar, his deputy and four industry representatives, was formed before Christmas to police the industry from the inside and keep it unified.

The idea was adopted from overseas, and Prisk said it seemed an easy way to ensure communication flows between the industry and the regulators.

Continued from page 1

needs, put the societies on a better growth path. In the main terminating building societies have been in a non-growth situation.

"It is the logical thing now to merge our two societies," Northern's Tippins said.

The same products as have been available previously would be offered under the new legislation. The range would simply be extended to include the new contractual ballot share provided in the legislation. Tippins said.

There was no intention of running anything down, he said. The terminating societies were not changing to permanent, he emphasised.

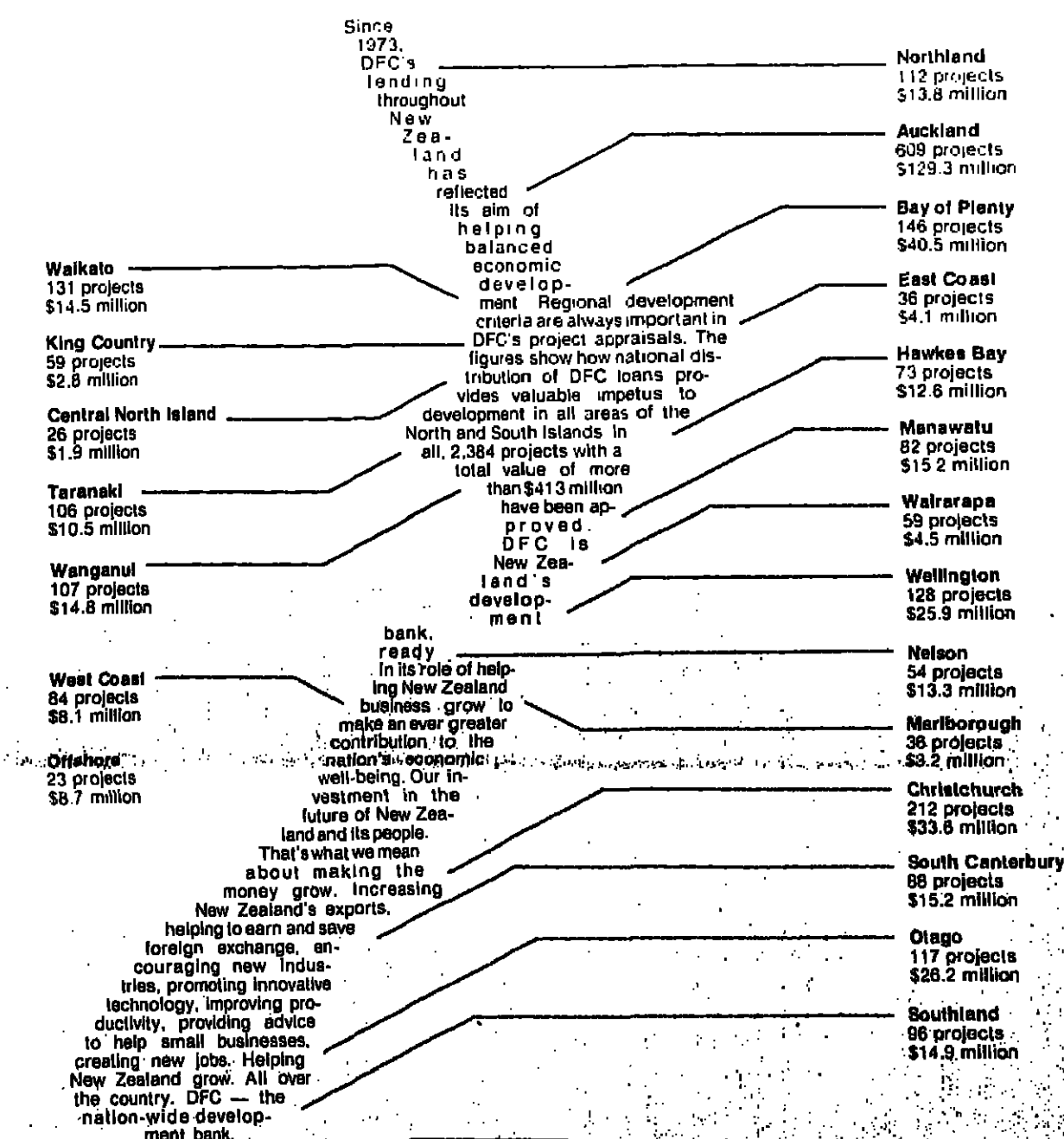
Jenkins agreed. Rather, the distinction between the two groups would be lost, he said.

On the redundancy question, Jenkins said that, when back on a growth path, the major societies would enter branching activities which would require employment of extra staff.

Prisk said he was undecided

## Here's where the money grows

The figures show total DFC approvals for the period 1 July 1973 to 30 September 1980.



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## Little in election speeches to help pay the rent

THE state of the nation speeches from Prime Minister Rob Muldoon and Opposition Leader Bill Rowling last week did little to clarify the economic outlook for 1981 and beyond.

That is normal, because both leaders make political speeches every time they address themselves to economic problems.

Businessmen will make their own prognostications on the basis of the general flow of information from official (mainly the statistics of leading economic indicators) and unofficial sources (the New Zealand Institute of Economic Research, for example).

Election year looks like a battle between "think big" and a variation of the "small is beautiful" philosophy.

The "answer", if there ever is an "answer" in economic and business affairs, probably falls somewhere between the two camps.

Prime Minister Muldoon's speech to the Orewa Rotary Club looked forward in the development field, with analysis of the energy projects in relation to oil prices and the state of the world economy.

It also contained a ghost of the 1960s while considering the affairs of the 1980s. Muldoon warned financial institutions that the Government would, if necessary, impose further penalties in public sector ratios on financial institutions. The institutions would be well advised to take heed of government statements on monetary policy.

It is unfortunate that "think big" comes apart when faced with questions of monetary and credit growth.

On the one hand we have the government (of any colour, because this has gone on for years) making pronouncements on monetary policy, and then

PETER V O'BRIEN comments on the financial and business week, appraises the share market and analyses the company accounts.

enforcing the pronouncement by resort to a captive market for public sector securities, if the institutions' performance falls outside the pronouncement.

New Zealand governments keep themselves in a heads I win, tails you lose position with this approach.

If the monetary policy works out, every government claims how clever it is. If the policy fails to work, it is made to work by raising public sector ratios on the institutions.

Late last year a finance company executive made the comment (also printed elsewhere) that no one had yet worked out how institutions were to borrow money, not lend it and make a profit on the

transaction.

Assuming the Government decides to increase the ratios, and, in Muldoon's terms take some of the finance companies' expensive borrowings and give them a lower return than that available in the market, the result will be an increase in the lending rate for the remaining finance company funds as they average their overall return.

The theoretical answer to a rise in their lending rates is consumer resistance to a higher cost of money.

That is correct in theory, but has less practical application these days, when people are used to high inflation, high money costs, and still have the desire to acquire goods now,

and offset the higher borrowing cost against probable solid price hikes for those goods in future.

Given the nature of this country's policy making in monetary affairs, it will probably be some years before the message sinks in about the control of money and interest rates.

On the same day that Muldoon made his state of the nation speech, ANZ Banking Group (New Zealand) chairman Lyn Papps echoed a common saying to his company's annual meeting: "It is not possible though, to control both the quantity and price of money at the same time and an adequate degree of restraint on the growth of monetary aggregates implies the need for higher interest rates to restrain the level of demand for credit."

Rowling's speech in Christchurch contained nothing new, and his later interview last Tuesday had some extraordinary comments particularly on the textile industry.

Among his throw away lines, Rowling also talked about possible control of overseas travel, for those he claimed had an overseas holiday each year to get away from the New Zealand winter.

While there may be a limited number of such people, it would be interesting to know how a Labour government is going to control that. At present

overseas travel funds are controlled through the Reserve Bank, with an upper limit in one year. Bank approval is needed to exceed the limit.

Is Rowling going to change that system, by refusing to let people out of the country more than once a year, or once every two years, irrespective of the amount they have spent on the last trip? And how will he decide those "worthy" of overseas travel? Through an army of bureaucrats and stacks of forms? If so, the policy has a bright side. Every time a New Zealand government sets out to stop people doing things an industry springs up to work out how they can do it, either legally, or (provided they can avoid being caught) illegally. That might help the unemployment problem which is now a major issue among the public.

There is also another economic policy floating around this year. The "shells for beads" boys of Social Credit have some intriguing ideas. The problem is that the rest of the world unhappily fails to follow their reorganised Douglas monetary and economic theories.

Somewhere in the mass of words which will descend on us this election year it may be possible to make a dollar and pay the rent, which is the main concern of the bulk of the public.

## Ultimate project costs

NEW Zealand has a new investment game for the 1980's. It suits the think big approach of the Government and various industrialists, and fits in with the necessity to obtain official approval for any major project.

You work out your costings on a plant to make green dolls eyes from the country's surplus cow dung (thus utilising a valuable national and natural resource by turning it into manufactured goods of high-value and low bulk for export) and present them to officials, knowing that only one such plant will be allowed.

Within six to nine months after obtaining approval you inform the Government that, due to unforeseen circumstances, the price of your plant has increased by say 80 per cent before the minister has the pleasure of turning the first sod on the site.

The 80 per cent movement is in present dollars, and you can probably be confident (although you should keep this quiet) that the final cost will be much higher than the estimate.

Once the revised costings have been accepted, you are able to recalculate the new selling price of your dolls-eyes when the plant comes on stream, assuming it ever comes on stream. You may decide to abandon the project if you are overseas-controlled and your parent's amortisation programme for tax purposes makes such a decision feasible.

There will be several examples of this investment approach in the 1980's, but the public should realise that there is nothing new in the idea.

Our commercial history, or folklore depending on one's views of what happened, includes the gentleman who came to Wellington regularly armed with all the facts and figures for talks with the bureaucracy.

Between leaving home and

sitting down with the mandarins who guide our economic destinies, it is said that his figures increased by about 10 per cent. The recalculated figure became the "presentation".

Whether true or not, that operator at least had the sense to realise that the carefully calculated estimates were basically a "working draft", and that the final costs would be higher. He acted immediately, to his credit.

Can we expect our economic planners to put the costings for all the other projects which are to be our economic salvation back into the computer for a rethink?

The latest edition of the NZIER's Quarterly Predictions gives "up-to-date" estimates for several development projects in the 1980s. They total \$4036 million in 1980 common prices, and adjusted to a common March 31-

The list is not exhaustive, but when the projects come on stream we are likely to see the price work out much higher in terms of the same base used for the latest estimates.

There is unlikely to be much change out of \$6000 million in 1980 terms.

There is a question for the sharemarket in this. At what point does a development project become unrealistic in terms of opportunity cost? Add that leads to another question. Is the present rush to get into the companies which will participate in the developments realistic, if opportunity costs get too high?

Most, if not all, investors working in the dark who making investment decisions on the big projects.

The urge for "commercial secrecy" when companies are obtaining government approvals rules out the availability of feasibility

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## Inflation accounting poses challenge to fiscal drag

THE Society of Accountants and the staff of university accountancy departments have a fine opportunity to assist their fellow men and women in 1981 by the application of their expertise in inflation accounting to the problems of the average Joe Blow wage and salary slave.

The brainpower invested in the problems of company accounting and its relation to inflation since 1976 may have been sufficient to solve all New Zealand's economic difficulties if it had been channelled in other directions.

Apart from recommendations from universities and the Accountants' Society, we are no further toward official acceptance of inflation accounting for pricing and taxation purposes than we were when the Richardson Committee set about the task of investigating the issues after the 1975 election.

In broad terms, inflation accounting theories try to find an acceptable solution to the erosion of real profits and asset values which result from the depreciation of money in times of high inflation (although they necessarily carry the implication that negative inflation would reverse the appropriate adjustments).

The Current Cost Accounting method (CCA) is the system advanced for the country with specific modifications to take account

of special cases which arise, for example, with companies dealing in monetary assets.

The system sounds logical for the companies, but companies and other corporate or unincorporated enterprises are only part of the economic mix.

There is no brainpower being applied to the problem of inflation as it affects other sections of the economy, whether they be the farmers, wage and salary earners or the self-employed.

Before the accountants start screaming over that claim, it would be useful to have a look at the facts.

Assuming that the "price" of the wage and salary earners' output is the price they receive for their work (wages and salaries) and that the price is adjusted regularly by reference to overall economic trends and the shift in the Consumers Price Index, it is partly true to say that their incomes are inflation adjusted.

But the proponents of inflation accounting want to see the tax system take account of inflation adjusted incomes. That does not happen in non-company forms of income, and gives rise to the phenomenon of fiscal drag (no, not a minister of finance in a dress, but the process whereby an increase in gross income leads to a rise in the marginal tax rate, and a consequent smaller adjustment to after-tax incomes).

The Current Cost Accounting method (CCA) is the system advanced for the country with specific modifications to take account

## complicate investment

studies to the public, even in summary.

If the cost of a project, in current terms, rises rapidly between the time of approval and commencement of construction, it is vital to have an idea of the revised discounted cash flow and payback period before committing funds to an investment.

If the figures show an extended payback period, and minimal cash flow for several years, it may be appropriate to forego investment in that company in favour of an alternative where the figures are better.

It is immaterial that the schemes may be in the "national interest" (usually self-defined by the promoters). In a market economy (we do have a market economy in New Zealand, don't we?) funds

should, and will, flow to the investment which produces the highest return in the lowest time period.

Every worthwhile analysis of the world economy in the 1980s suggests that this decade will see the re-emergence of the smaller operator able to carve out a market from the use of entrepreneurial skills and brainpower, rather than the ability to marshal substantial capital for manufacturing projects which are likely to be outdated within a few years.

In that context, as opposed to the wafflings of our nostalgia-ridden, cottage industry, job and income-secure luddites, think smaller may be a better guide to personal investment than the approach which adds a few hundred million dollars more or less to a project during its construction.

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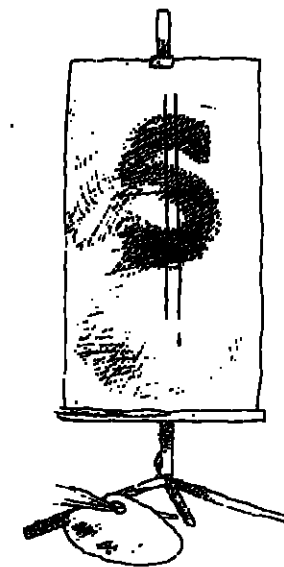
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Let us assume that the Consumers Price Index is taken as an appropriate guide for setting wage and salary increase. It is

still only a rough guide, because every individual has a different personal price index, depending on spending patterns, just as different companies have different costs, a matter reflected in the call for sectional cost indices for inflation accounting.

If the CPI goes up 16 per cent in a year, it would be logical to increase wages by 16 per cent to take account of that price increase.

The inflation accounting rules propounded for companies suggest that an adjustment to company income would be made on some index basis before applying a tax rate.

And that is fair, reasonable, and logical if you are part of the Accountants' Society team pushing Current Cost Accounting, or a denizen of a university accountancy department, because the inflated costs of doing business and replacing

stock should be recognised in the tax system.

It would seem equally fair, reasonable, and logical that an individual taxpayer should adjust the increase in the year's income for the effects of his or her rising costs.

Therefore, a wage increase of 16 per cent in a year would need to be offset against a movement of 16 per cent in the CPI (or some other appropriate index), bearing in mind that wage increases are paid after the event.

The result would be that the taxpayer finishes up paying tax on the effective increase in income (nil, in this case), by applying the philosophy of inflation accounting to the money received during the year.

In one easy move we have disposed of fiscal drag as it affects non-corporate incomes.

Ah, we hear you chorus, that is ridiculous. It would wreck the economy, push up inflation,

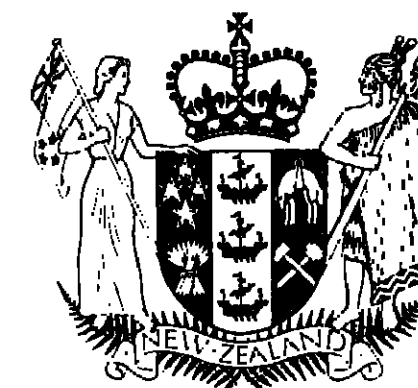
and throw the Government's funding programme into disorder. How, we hear you ask, would the Government finance its increasing wage and salary bill if wage increases in line with the CPI extracted no more tax?

We agree that is a big problem. It is also a problem that the inflation-accounting-for-companies proponents fail to answer.

Their failure results from another problem which is always present when one pushes a case for a particular section of the community - tunnel vision.

Put another way, that means a logical argument about sauce for geese must include ganders if it is to stand up to analysis.

Go to it, society members and academic accountants. Give us a total inflation accounting system for 1981, and rid us of this dreadful fiscal drag - if you can.



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